

# Instructor's Resource Manual

## Business Ethics

### Ethical Decision Making and Cases

TENTH EDITION

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# To the Instructor

This *Instructor's Resource Manual for Business Ethics: Ethical Decision Making and Cases*, Tenth Edition, by O. C. Ferrell, John Fraedrich, and Linda Ferrell is designed to assist the instructor teaching from our text. We provide the following teaching aids:

- Detailed **lecture outlines** to guide class lectures. The outlines can be used to quickly review a chapter before class or to gain an overview of the entire book.
- A **syllabus guide** with suggestions for using the text materials in a business ethics class.
- Guides to discussing “An Ethical Dilemma” (chapter-opening scenarios), Debate Issues, and “Resolving Ethical Business Challenges” (end-of-chapter minicases).
- **Case notes**, which provide additional insight about the cases, will help you evaluate or lead case analysis and discussions. We do not suggest answers to the case questions in the text, but our notes should help you identify key issues, alternatives, and insights to critical thinking.
- **Role-play exercises** for class simulations of ethical dilemmas. These role-playing exercises are designed to help students understand the real world challenges of ethical decision making. We provide both options for implementation and teaching overviews for the six simulations.
- **Case notes for online minicases**. The Tenth edition also features five additional minicases that are available online. These cases cover Toyota, Eaton, Barrett-Jackson, Herbalife, and The Container Store.
- **Videos** on ethics and social responsibility topics, 15 of which are new to this edition and 11 are classic cases. Each was selected to complement the material in the textbook and cases and help to bring real-world examples and skill-building scenarios into the classroom.
- **ProfessorJournal.com**. Go to this website to sign up for the *Wall Street Journal* online Educator's Reviews. These reviews, written by O.C. Ferrell, are designed to help you easily integrate *Journal* content into your classes. Each review highlights three *Wall Street Journal* articles and includes article summaries, discussion questions, and WSJ.com links. These email reviews are sent out weekly. Members can also access an archive of past article selections.
- Additional teaching resources such as PowerPoint presentations, articles, cases, debate issues, an online teaching business ethics resource manual, among other useful information can be found on our Daniels Fund Ethics Initiative website <http://danielsethics.mgt.unm.edu/>. Some of these cases appeared in previous editions but have been updated to reflect recent developments. The cases include the following companies or topics:
  - Diamond Foods
  - Intellectual Property
  - Fracking
  - REI
  - Salesforce.com
  - Patagonia
  - Hershey
  - T-Mobile
  - Wyndham
  - Bueno Foods

- Seattle Fish Company
- Tylenol
- Barrett-Jackson
- The Container Store
- Eaton Corporation
- Caterpillar
- TOMS Shoes
- Coca-Cola
- Microsoft
- Nike
- American Red Cross
- AIG
- Countrywide
- HCA
- Arthur Andersen
- Tyco
- Sunbeam
- Petco
- Ben & Jerry's
- Exxon Valdez
- Martha Stewart
- Worldcom
- Bank Industry Meltdown

The *Instructor's Resource Manual* provides a flexible menu of material to assist you, depending on your goals and time schedule. For instructors using the book as a supplement in Business and Society, Business Policy, Marketing Strategy, Accounting, or other management, marketing, or finance courses, we suggest several alternatives. Instructors who spend only a few weeks covering business ethics may incorporate a combination of lectures from the chapters along with an examination. We suggest that instructors who want to cover business ethics, but do not have the class time, have students read the book, then use objective or essay test items to evaluate student comprehension.

Instructors using this book in Business Ethics courses should enhance learning by covering as many elements of the *Business Ethics* text as possible. Our case notes do not provide specific right or wrong solutions, but rather provide additional insights that should help you with the case discussions in class. By encouraging discussions of material from the text and the cases, an intelligent dialogue can emerge that should focus on approaches to ethical decision making, not the emotional aspects of personal ethical beliefs. Each chapter has "An Ethical Dilemma" at the beginning and "Resolving Ethical Business Challenges" at the end. The questions accompanying each of these elements should stimulate discussion. Students should be encouraged to discuss the ethical issues raised by these dilemmas and situations, and relate the issues to the material in the chapter.

The simulation role-play exercises allow students to assume various roles within an organization and to operate as representatives of different functional areas in order to assist in addressing specific ethical issues. The simulations require minimal instructor effort to implement and allow students to utilize their creative problem solving skills in real-world situations. Since these are designed as "pen and paper" exercises, there is no need for computer access or outside research. If you have never used a simulation exercise, we highly encourage you to try it. As it actively engages the students, we think you will find it to be an effective teaching device. Business ethics issues often require a rapid strategic response from an organizational group or team. These exercises simulate this experience, and students are given an opportunity to apply the concepts discussed in class.

Business ethics is a fairly new area of discovery for many students and instructors. While it is one of the most important business topics today, there are many different points of view on the best way to teach business ethics in class (whether it should be a stand-alone course or incorporated into other courses). We believe that business ethics can be covered in class just like other business courses. Our goal is to give you the freedom to add your own perspective to our teaching materials.

We sincerely appreciate the extreme diligence of Brett Nafziger in developing and editing the material in the *Instructor's Resource Manual*, updating the material in the test banks, updating and editing the PowerPoint presentations, and developing the online interactive quizzes. Jennifer Sawayda, Michelle Urban, and Danielle Jolley deserve special thanks for their help in editing and updating the 10<sup>th</sup> edition of this book, the cases, and the online minicases.

We want to do our best to provide teaching materials that enhance the study of business ethics. Your suggestions will be sincerely appreciated. Please feel free to contact the authors to discuss teaching business ethics, the material in the text, or the *Instructor's Resource Manual*.

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## **Business Ethics Spring 2014**

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**Office:** GSM 301   **Office Hours:** Monday 2:30-4:00 (except when otherwise noted) & by appt.

**Course Description:** This course addresses the challenges and leadership requirements in developing and implementing ethical business strategies. Just preventing unethical conduct is not the purpose of this course. There is adequate evidence that developing an ethical culture in an organization contributes to employee commitment, customer satisfaction, successful stakeholder relationships, and improved profit/shareholder value. Business ethics is not a cost but a benefit that contributes to organizational success. Through readings, cases, and debate issues, we will address specific business ethics issues. Most of these issues affect the reputation and success of the entire firm. The objective is to help identify risks associated with ethical decisions and how to address those risks in the context of an organization. As a manager, there is a need to identify and address ethical risks to avoid or minimize misconduct. The course will be highly interactive and challenges you to apply what you learn through a variety of in-class exercises. You will take the NASBA Center for the Public Trust Ethical Leadership Certification (online certification program developed with NASBA & the Daniels Fund Ethics initiative).

### **Course Objectives:**

- Define the ethical responsibilities of managers.
- Provide a descriptive understanding of how ethical decision making occurs in an organization.
- Provide knowledge and exercises to help you understand the responsibilities of ethical leadership
- Identify ethical risks and issues in making ethical decisions in business.
- Explore how managers are important gatekeepers with internal and external stakeholders.
- Understand the relationships between ethics, social responsibility, and sustainability in the firm.
- Learn how the oversight of top managers and corporate governance affect ethical decisions.
- Examine external pressures for ethical decisions related to regulatory and self-regulatory organizations.
- Experience real business ethics decisions through cases, simulations, debates, and other classroom activities.
- Learn that business ethics is a team activity that requires knowledge and leadership at all levels of management.

**Required Text:** O.C. Ferrell, John Fraedrich, and Linda Ferrell (2015) *Business Ethics: Ethical Decision Making and Cases*, Cengage. EBooks available at: <http://www.cengagebrain.com/shop/isbn/9781111825164> (e-books available from \$49.99). Also available in soft cover format at UNM book store.

**Required Website:** <http://danielsethics.mgt.unm.edu/>

**Course Requirements:** *Due to the interactive nature of this class, attendance and participation is required. Excessive absences will result in dismissal from the course.* There will be a number of techniques and material provided in class--supplemental to the textbook. To be successful in this class, you must actively participate in these learning experiences. Teaching methods will include: class discussion and exercises, cases, outside assignments, videos and lecture. If a team member is delinquent, please notify the professor immediately for a team meeting to discuss. If you miss an exam without prior professor approval, you will receive a zero.

**Class Format**

This course provides an opportunity to explore new insights into key business issues. The class is a seminar with attendance and participation the main focus. You will be given the opportunity and responsibility to conduct research and to present current and ‘cutting edge’ information on selected topics relevant to this course. The class will consist of mini-lectures, student presentations, discussion, debates, role play exercises, cases, and videos. Teams will develop and present a research study or an approved case study on a topic of interest.

**Grading**

Case Presentation	100	
Video Competition	150	
Case Development	150	
Exam (2)	150	
Role Play Exercise (2)	100	
Debate Issue Presentation (2)	100	
Ethical Leadership Certification	150	
Participation, Professionalism, & Attendance		100
Total	1,000	

**Grading Scale: 90-100%-A; 80-89.9%-B; 70-79.9%-C; 60-69.9%-D; and < 60%-F.**

**Course Projects**

**Teamwork Component:** There are team projects in this class. There are certain conditions that I will assume this semester regarding team performance and consideration. Each team member is expected to contribute equally on all team efforts. If at any point my assumptions are incorrect, please let me know. Please remember that most organizational activities require teamwork. You will be assigned to teams the first day of class. Please exchange contact information (phone and email) to facilitate coordinating meeting times.

**Case Presentation:** Each team will be required to present a case on the Daniels website. Your responsibility will be a 20 minute long PowerPoint presentation on the case, and a 2 page overview of your presentation for each member of the class. You should address the key challenges that the company or organization faces, any ethical risks or challenges, and what this company did in managing these risks and challenges. If this company faced new challenges today, are they prepared to respond appropriately? Your job will be to conduct outside research in order to integrate business ethics issues, frameworks, and examples into the case that will be assigned in class. Your case must address some of the assigned reading in this class.

**Case Presentation:**



Your team will develop a 7-10 page case on a company from an assigned list. Similar to your case presentation, it is more important to address key challenges the organization has faced, ethical risks, and how they have managed these challenges and risks. This case development requires external on the company from sources such as *The Wall Street Journal*, *Fortune*, *Forbes*, *Businessweek*, etc. Do not use sites such as Wikipedia or other encyclopedia sites. Please use proper attribution and citation for all outside research. You will be evaluated on the quality and accuracy of your research. If the case is positive, then how is the company successfully navigating the risk areas of its business? In other words, how have they managed to avoid negative consequences of identified risk? You will present your case to the class during the last four weeks of class. You will be expected to develop a 20-minute presentation with time for Q&A.

**Debate Issue Presentation:** Each 2-person team will engage in two debates in class. You will conduct research and defend your side of the debate. The purpose of the debate is to emphasize that most issues in business ethics can be viewed from different perspectives. In other words, there are usually two possible sides, and each perspective can be defended based on some evidence or logic. Your team will be assigned a side, and your job will be to take a stand based on evidence defending this position. All debates are on the Daniels website.

**NASBA Center for the Public Trust Membership & Ethical Leadership Certification Program:** As a part of UNM's \$1.25 million Daniels Fund Ethics Initiative grant, each one of you will be joining the NASBA Student Center for the Public Trust. We will have 3 corporate guest speakers in this semester and attending those presentations will be a part of the class. We will attempt to schedule these speakers during regular class meeting times and dinner will be provided. In addition, each of you will complete NASBA Center for the Public Trust Ethical Leadership Certification. This program is being developed for students and is comprised of 6 modules of online content (delivered through Brainshark, containing videos, graphics, and a voice over). At the end of each of the 6 modules, you will take an online exam through NASBA. When you pass the exam, you can advance to the next module. When you have completed all 6 modules successfully, you will be the first students in the country to have NASBA Center for the Public Trust Ethical Leadership Certification. All costs associated with participating in the certification program will be covered by the Daniels Fund Ethics Initiative grant.

**NASBA Center for the Public Trust Video Competition:**

The goal of this competition is to challenge students' creativity and originality in addition to educating viewers on the various aspects of leadership, ethics and business. The video can be staged as a short play, commercial, talk show, music video, documentary, etc. and is to focus on any aspect of ethical behavior. We encourage students to be creative in their entries and focus on the core purpose of this competition which is to promote ethical behavior. Each team can consist of 1-5 people. First place winners receive \$1000, second place \$500, and third place \$250. Last year three students, Sid Scheer, Cody Frew, and Kevin Klein won first prize for their video "If Companies Were People."

**NASBA Center for the Public Trust Membership & Ethical Leadership Certification Program:** As a part of UNM's \$1.25 million Daniels Fund Ethics Initiative grant, each one of you will be joining the NASBA Student Center for the Public Trust. We plan to have 3 corporate guest speakers in this semester and attending those presentations will be a part of the class. We will attempt to schedule these speakers during regular class meeting times and dinner will be provided. In addition, each of you will complete NASBA Center for

the Public Trust Ethical Leadership Certification. This program is being developed for students and is comprised of 6 modules of online content (delivered through Brainshark, containing videos, graphics, and a voice over). At the end of each of the 6 modules, you will take an online exam through NASBA. When you pass the exam, you can advance to the next module. When you have completed all 6 modules successfully, you will be the first students in the country to have NASBA Center for the Public Trust Ethical Leadership Certification. All costs associated with participating in the certification program will be covered by the Daniels Fund Ethics Initiative grant.

**Business Ethics Behavioral Simulations:** You will engage in 2-team behavioral simulations (in class). Each team will be given a common background ethical dilemma for a company. Each team member will also be assigned a role in the organization with unique information and perspective on the dilemma. Each team will summarize the business ethics issues for the company and identify the short term, mid-range and long term recommendations to resolve the problems.

**Exams:** You will have 2 required exams during the semester. More information on the format of the exams will be provided in class. The final exam is comprehensive, worth the same value as the other 2 exams, and optional. If you do not take the exam, your grade is based on 1,000 points. If you take the final exam, your final grade is based on 1,200 points. You must receive prior approval to miss an exam. Otherwise, you will receive no points for the exam.

#### Course Schedule\*

(\*Subject to change as announced in class-you are responsible for all class assignments.)

Date	Activity
1/13	Course overview & ‘road map’ for the semester Overview of Business Ethics-Overview of debate issue: Ackman vs Herbalife
1/20	Martin Luther King Holiday. No Class.
1/27	Chapter 1: The Importance of Business Ethics Chapter 2: Stakeholder Relationships, Social Responsibility, and Corporate Governance Behavioral Simulation: National Farm & Garden
2/3	Chapter 3: Emerging Business Ethics Issues Case: Apple Inc.’s Ethical Success and Challenges Debate Issue: Facebook Privacy
2/10	Chapter 4: Institutionalization of Business Ethics Case: Walmart Manages Ethics and Compliance Challenges Debate Issue: Clearance Pricing
2/17	Chapter 5: Ethical Decision Making Case: National Collegiate Athletic Association: Football Compliance Case: Frauds of the Century
2/24	Exam 1: Chapters 1-5 Case: New Belgium Brewing: Ethical and Environmental Responsibility Case: Whole Foods Strives to Be an Ethical Corporate Citizen

- 3/3 Chapter 6: Individual Factors: Moral Philosophies and Values  
Chapter 7: Organizational Factors: The Role of Ethical Culture and Relationships  
Debate Issue: Ashley Madison  
Debate Issue: Marketing and Sex Appeal
- 3/10 Spring Break.
- 3/17 Chapter 8: Developing Effective Ethics Programs  
Chapter 9: Managing and Controlling Ethics Programs  
Debate Issue: Gender Based Price Discrimination  
Case: BBB: Protecting Consumers & Dealing with Organizational Ethics Challenges
- 3/24 Chapter 10: Globalization of Ethical Decision-Making  
Case: Managing the Risks of Global Bribery in Business  
Debate Issue: Bribery Laws
- 4/1 Chapter 11: Ethical Leadership  
Behavioral Simulation: Soy-Dri  
Case: Ethical Leadership at Cardinal IG: The Foundation of a Culture of Diversity
- 4/7 Chapter 12: Sustainability: Ethical Social Responsibility Dimensions  
Case: Best Buy Strives Against Electronic Waste  
Debate Issue: Greenwashing
- 4/14 Exam 2: Chapters 6-12  
Debate Issue: Childhood Obesity  
Case: Starbucks' Mission: Social Responsibility and Brand Strength
- 4/21 Behavioral Simulation: HR Decisions  
Debate Issue: Calorie Labeling
- 4/28 Class wrap up & NASBA CPT Video entries (presentation & rationale/impact)

### **Class Policies**

#### **Academic Integrity**

All students are expected to read and adhere to the Anderson School of Management Academic Honesty code (available at <http://www.mgt.unm.edu/honesty>). By enrolling in any course at Anderson, the student accepts the Anderson Academic Honesty Code and affirms the following pledge: I will not lie, cheat, fabricate, plagiarize or use any other dishonest means to gain unfair academic advantage. Academic dishonesty of any type will not be tolerated. This includes, but is not limited to, plagiarism (copying other's work and representing it as your own, either in part or in total, without the appropriate citations) and copying other's responses during exams. Additionally, this class is part of Anderson's test of Turnitin, a program designed to check all electronic submissions of papers against 14 billion web pages, 150 million student papers and leading library databases and publications.

#### **Attendance and Professionalism**

Class participation is an important element of discussions. Learning depends heavily upon thorough and lively participation. The primary emphasis should be on quality participation. The quality of participation, as reflected in careful reading of assigned material, thoughtful reflection,

and clear and concise comments, is extremely important. However, one cannot make quality contributions without some measure of quantity. It is particularly important that your comments fit into, and build on, previous comments. This requires that we all listen carefully to each other. Use of your name tents is mandatory. Class participation will be judged on the basis of quality and consistency of effort on a regular basis. Attendance is **NOT** participation. Additionally, there is **no way** to make up "missed" participation opportunities! If you miss a class period, you are responsible for determining what was missed from a classmate. Do not contact me for an update on what you missed or to 'clear' an absence. You are responsible for getting information from classmates or team members for missed classes. Your participation grade will drop with each absence, beginning with your second absence.

In addition, classroom professionalism is to be maintained at all times. This means that when the professor is speaking or when students are presenting their work, the classroom should be silent, with the exception of invited questions. As in any academic environment, questions are welcome, but informal chatter or communication among class members becomes a distraction for all those in attendance and will not be tolerated. Cellular phones and computers should be "turned off" during class. Students should refrain from being late to class, leaving early, or leaving and returning during class. There are no acceptable reasons for leaving class other than sudden illness or an emergency. Leaving class to answer a phone call will result in a 15-point deduction to your participation grade. Engaging in tardiness, early exit or leaving in the middle of class will result in a reduction of your participation and professionalism grade. Please remove all hats, caps, or sunglasses during exams. Once exams are being passed out, all talking must stop unless it is a team exam. Professionalism is an important part of this class, and will be reflected in your grade. Appropriate behavior is an easy way to improve your grade.

### **Electronic Devices and Computer Use**

The use of electronic devices is specifically forbidden in the classroom. I reserve the right to reduce your participation grade by 10 points for each time you are on your computer, smart phone, or any other digital device unless there is an approved time period for use. If you possess one of these devices, it must be turned off during class. During examinations, said devices must be out of plain sight, preferably in your purse or back pack. If you need to be contacted for emergencies, advise those that may need to reach you to call the emergency message service at 277-7872. A staff member from that office will deliver the message to you in class.

### **Inclement Weather**

In the event of inclement weather during the semester, contact the University's weather hotline at 277-7669. The recorded message will state whether or not there will be closures or delays.

### **Reasonable Accommodation**

If you are a qualified person with disabilities who might need reasonable accommodations in academic settings, please communicate that with the instructor as soon as possible so that appropriate arrangements may be made to meet your needs. Frequently we need to coordinate accommodating activities with other offices on campus. Please go to <http://www.unm.edu/~wzahner/access.html> for additional information regarding your educational rights under ADA.

**Changes to the Syllabus/Schedule**

Any component of this syllabus is subject to change at the discretion of the instructor. All changes will be announced during a scheduled class period before taking effect or through email or website communication with the class.

# CHAPTER 1

## The Importance of Business Ethics

### SUMMARY

This chapter provides an overview of business ethics. It develops a definition of business ethics and discusses why it has become an important topic in business education. Next, it examines the evolution of business ethics in North America and explores the benefits of ethical decision making in business. Finally, the chapter provides a framework for examining business ethics in this text.

### INSTRUCTOR NOTES FOR “AN ETHICAL DILEMMA”

This Ethical Dilemma focuses on salespeople reporting their expense accounts. Sophie had just completed a sales training course stressing the importance of accurately filling out expense vouchers. Yet while filling out her first weekly expense vouchers, Sophie’s mentor Emma encouraged her to pad the expense account. Emma explained the accounting department supervisor was unsympathetic to salespeople and refused to change the expense voucher forms to include a place for tips, making tips an out of pocket expense. Emma explained how even though padding violated company policy, it was an accepted practice in the sales department and she was encouraged to do the same by her mentors. Emma showed Sophie how most salespeople use blank cab fare receipts when padding in waiter, bellhop, and skycap tips. Emma then spoke about how the Vice President of Sales never questioned salespeople who went along with the system but one salesperson was no longer working for the company after accurately reporting expenses. This was Sophie’s first real job out of school and Emma was her mentor. What should Sophie report on her expense account?

Sophie must decide if she should follow policy or follow Emma’s instruction and pad her expense accounts. Should Sophie speak up and voice her concern on this matter? Everyone else seems fine with the arrangement. Why should Sophie have a problem? If Sophie pads her accounts then she will have to continue padding her accounts for the rest of her employment. Is she willing to do this? If Sophie does not pad her accounts then all tips will come out of Sophie’s pocket. In addition, her sales manager may ask why her expense account is lower than all the other sales rep’s. Sophie’s co-workers may view her as a troublemaker if she speaks up. How do students feel about this issue? Would they report their actual expenses or would they pad their expense accounts?

### LECTURE OUTLINE

- I. Business Ethics Defined
  - A. Business ethics is a complicated and controversial topic. Highly visible business ethics issues influence the public’s attitudes toward business and can destroy trust.
    1. The field of business ethics concerns questions about whether specific business practices are acceptable.
    2. Business ethics is controversial and there is no universally accepted approach for resolving ethical issues.
    3. Values and judgments play a critical role in the making of ethical decisions.
  - B. Some special aspects must be considered when applying ethics to business.
    1. Businesses must earn a profit to survive, but these profits should not come from misconduct.
    2. Businesses must balance their desires for profits against the needs and desires of society.

- C. **Morals** refer to a person’s personal philosophies about what is right or wrong.
  - D. **Business ethics** comprises organizational principles, values, and norms that may originate from individuals, organizational statements, or from the legal system that primarily guide individual and group behavior in the world of business.
  - E. **Principles** are specific and pervasive boundaries for behavior that should not be violated.
  - F. **Values** are enduring beliefs and ideals that are socially enforced.
    - 1. Investors, employees, customers, interest groups, the legal system, and the community often determine whether a specific action is right or wrong and ethical or unethical.
- II. Why Study Business Ethics?
- A. A Crisis in Business Ethics
    - 1. Ethical misconduct is a major business concern, and organizations are under greater scrutiny than ever by stakeholders.
    - 2. Misuse of company resources, abusive behavior, harassment, accounting fraud, conflicts of interest, defective products, bribery, and employee theft are all problems cited as evidence of declining ethical standards in business and in other areas like government or sports. Misconduct can occur in any organization.
    - 3. Regardless of an individual’s beliefs about a particular action, if society judges it to be unethical or wrong, whether correctly or not, that judgment directly affects the organization’s ability to achieve its business goals.
  - B. Reasons for Studying Business Ethics
    - 1. Studying business ethics is valuable for several reasons.
      - a. Business ethics is not merely an extension of an individual’s own personal ethics—an individual’s personal values and moral philosophies are only one factor in the ethical decision-making process.
      - b. Being a good person with sound personal ethics is not sufficient to handle the ethical issues that arise in a business organization.
      - c. Business strategy decisions involve complex and detailed discussions. A high level of personal moral development may not prevent an individual from violating the law in an organizational context.
      - d. The values people learn from family, religion, and school may not provide specific guidelines for complex business decisions.
    - 2. Studying business ethics helps businesspeople begin to identify ethical issues, recognize the approaches available to resolve them, learn about the ethical decision-making process and ways to promote ethical behavior, and begin to understand how to cope with conflicts between personal values and organizational values.
- III. The Development of Business Ethics
- A. Before 1960: Ethics in Business
    - 1. Prior to 1960, the United States went through several phases questioning the concept of capitalism.
      - a. In the 1920s, the progressive movement sought to provide citizens with a “living wage,” or income sufficient for education, recreation, health, and retirement.
      - b. In the 1930s, the New Deal specifically blamed business for the country’s economic woes. Businesses were asked to work more closely with the government to raise family income.
      - c. By the 1950s, the New Deal had evolved into the Fair Deal, defining such matters as civil rights and environmental responsibility as ethical issues that businesses had to address.
    - 2. Until 1960, ethical issues related to business were discussed within the domain of theology or philosophy.
      - a. Catholic social ethics included concern for morality in business, workers’ rights, and living wages, for humanistic values, and for improving the conditions of the poor.

- b. The Protestants work ethic encouraged individuals to be frugal, work hard and attain success in the capitalistic system.
  - c. Religious traditions provided a foundation for the future field of business ethics, with the first book on business ethics published in 1937 demonstrating the necessity of the ethical treatment of different stakeholders.
- B. The 1960s: The Rise of Social Issues in Business
- 1. American society turned to causes such as consumerism. An antibusiness attitude developed as critics attacked the perceived vested interests that controlled both the economic and political sides of society—the so-called military-industrial complex.
  - 2. The 1960s saw the decay of inner cities and the growth of ecological problems.
  - 3. The rise of consumerism—activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers—began, and President John F. Kennedy outlined a **Consumers' Bill of Rights** (the right to safety, the right to be informed, the right to choose, and the right to be heard).
  - 4. The modern consumer movement has roots in 1965 and Ralph Nader's *Unsafe at Any Speed*. His group fought successfully for consumer-protection legislation.
  - 5. President Johnson's Great Society told the business community that the U.S. government's responsibility was to provide the citizen with some degree of economic stability, equality, and social justice. Activities that could destabilize the economy or discriminate against any class of citizens began to be viewed as unethical and unlawful.
- C. The 1970s: Business Ethics as an Emerging Field
- 1. Business professors began to teach and write about **corporate social responsibility**: an organization's obligation to maximize its positive impact on stakeholders and to minimize its negative impact.
  - 2. Philosophers applied ethical theory and philosophical analysis to structure the discipline of business ethics.
  - 3. As social demands grew, many businesses realized that they had to address ethical issues more directly.
  - 4. The Foreign Corrupt Practices Act, passed under Jimmy Carter, made it illegal for U.S. businesses to bribe government officials of other countries.
  - 5. Major business ethics issues emerged by the late 1970s, such as bribery, deceptive advertising, price collusion, product safety, and the environment.
  - 6. Academic researchers sought to identify ethical issues and to describe how businesspeople might choose to act in particular situations.
- D. The 1980s: Consolidation
- 1. Business ethics became a legitimate field of study. Membership in business ethics organizations increased, while centers of business ethics provided publications, courses, conferences, and seminars.
    - a. Stakeholder theory, pioneered by R. Edward Freeman had a major impact on strategic management and corporations' view of their responsibilities.
    - b. Many firms established ethics and social policy committees to address ethical issues.
  - 2. The **Defense Industry Initiative on Business Ethics and Conduct** (DII) was developed to guide corporate support for ethical conduct. The DII includes six principles:
    - a. Development and distribution of understandable, detailed codes of conduct.
    - b. Provision of ethics training and development of communication tools to support the periods between training.
    - c. Creation of an open atmosphere in which employees feel comfortable reporting violations, without fear of retribution.
    - d. Performance of extensive internal audits and development of effective internal reporting and voluntary disclosure plans.
    - e. Preservation of the integrity of the defense industry.



- f. Adoption of a philosophy of public accountability.
    - 3. The Reagan/Bush era ushered in the belief that self-regulation, rather than regulation by government, was in the public's best interest. The rules of business were changing at a phenomenal rate because of less regulation.
  - E. The 1990s: Institutionalization of Business Ethics
    - 1. The Clinton administration continued to support self-regulation and free trade, although it strengthened regulation in some areas like health-related social issues.
    - 2. The **Federal Sentencing Guidelines for Organizations**, which were based on the six principles of the Defense Industry Initiative, codified into law incentives to reward organizations for taking action, such as developing effective internal legal and ethical compliance programs, in order to prevent misconduct,.
      - a. The guidelines mitigate penalties for businesses that strive to minimize misconduct and establish high ethical and legal standards.
      - b. Under the FSGO, if a company lacks an effective ethical compliance program and its employees violate the law, it can incur severe penalties.
      - c. The guidelines focus on firms taking action to prevent and detect business misconduct in cooperation with government regulation.
      - d. Chapters 4 and 8 will provide more detail on the FSGO's role in business ethics programs.
  - F. The Twenty-First Century of Business Ethics
    - 1. New evidence emerged in the early 2000s that more than a few business executives and managers had not fully embraced the public's desire for high ethical standards.
    - 2. To address a loss of confidence in financial reporting and corporate ethics, Congress passed the **Sarbanes-Oxley Act** in 2002, the most far-reaching change in organizational control and accounting regulations since the Securities and Exchange Act of 1934. The law:
      - a. Made securities fraud a criminal offense and stiffened penalties for corporate fraud.
      - b. Created an accounting oversight board that requires corporations to establish codes of ethics for financial reporting and to develop greater transparency in financial reports to investors and other interested parties.
      - c. Requires top executives to sign off on their firms' financial reports, risking fines and jail if they misrepresent their companies' financial position.
      - d. Requires company executives to disclose stock sales immediately and prohibits companies from giving loans to top managers.
    - 3. Amendments to the **FSGO** require a business's governing authority be well informed about its ethics program with respect to content, implementation, and effectiveness.
    - 4. President Obama has led the passage of legislation to stimulate an economic recovery from the greatest recession the world has experienced since the 1930s. The legislation focused on social concerns.
    - 5. To address lingering issues related to the financial crisis, the **Dodd-Frank Wall Street Reform and Consumer Protection Act** represents the most sweeping financial legislation since the Sarbanes-Oxley Act and possibly since the Great Depression.
    - 6. Around the world, the basic assumptions of capitalism are under debate in the wake of the most recent financial industry meltdown and global recession. Widespread government intervention is worrisome to free-market capitalists.
- IV. Developing an Organizational and Global Ethical Culture
- A. Compliance and ethics initiatives in organizations are designed to help establish appropriate conduct and core values.
    - 1. To develop more ethical corporate cultures many businesses communicate core values to their employees via ethics programs and appointing ethics officers to oversee them.

2. The ethical component of a corporate culture relates to the values, beliefs, and established and enforced patterns of conduct that employees use to identify and respond to ethical issues.
  - B. The term **ethical culture** is acceptable behavior as defined by the company and industry. The goal of an ethical culture is to minimize the need for enforced compliance of rules and maximize the use of principles that contribute to ethical reasoning in difficult or new situations.
  - C. Globally, businesses are working more closely together to establish standards of acceptable behavior. Many companies demonstrate their commitment to acceptable conduct by adopting globally recognized principles, such as the United Nations' Global Compact.
- V. The Benefits of Business Ethics
- A. The field of business ethics is rapidly changing as more firms recognize the benefits of improving ethical conduct and the link between business ethics and financial performance.
  - B. Among the rewards for being more ethical and socially responsible in business are increased efficiency in daily operations, greater employee commitment, increased investor willingness to entrust funds, improved customer trust and satisfaction, and better financial performance.
  - C. Ethics Contributes to Employee Commitment
    1. Employee commitment comes from employees who believe their future is tied to that of the organization and their willingness to make personal sacrifices for that organization.
      - a. The more a company is dedicated to taking care of its employees, the more likely it is that the employees will take care of the organization.
      - b. Issues that may foster the development of an ethical climate for employees include the absence of abusive behavior, a safe work environment, competitive salaries, and the fulfillment of all contractual obligations toward employees, as well as social programs such as stock ownership plans and community service.
    2. Employees' perception of their firm as having an ethical environment leads to performance-enhancing outcomes within the organization.
      - a. An organization with a strong, ethical corporate culture helps to increase group creativity, decrease turnover, and increase job satisfaction.
      - b. Trusting relationships within an organization between both managers and their subordinates and upper management contribute to greater decision-making efficiencies.
      - c. When companies are viewed as highly ethical by their employees, they were six times more likely to keep their workers.
    3. Research indicates that the ethical climate of a company matters to employees.
  - D. Ethics Contributes to Investor Loyalty
    1. Investors today are increasingly concerned about the ethics, social responsibility, and the reputation of companies in which they invest.
      - a. Investors recognize that an ethical climate provides a foundation for efficiency, productivity, and profits; while negative publicity, lawsuits, and fines can lower stock prices, diminish customer loyalty, and threaten a company's long-term viability.
      - b. Investors look at the bottom line for profits or the potential for increased stock prices or dividends, and for any potential flaws in the company's performance, conduct, and financial reports.
      - c. Gaining investors' trust and confidence is vital to sustaining the financial stability of the firm.
  - E. Ethics Contributes to Customer Satisfaction
    1. Customer satisfaction is one of the most important factors in successful business strategy.
      - a. By focusing on customer satisfaction, a company continually deepens the customer's dependence on the company, and as the customer's confidence grows, the firm gains a better understanding of how to serve the customer.

- b. Successful businesses provide an opportunity for customer feedback, which can engage the customer in cooperative problem solving.
    - 2. Research indicates that a majority of consumers prefer companies that give back to society in a socially responsible manner.
    - 3. A strong organizational ethical environment usually focuses on the core value of placing customers' interests first.
      - a. An ethical climate that focuses on customers incorporates the interests of all employees, suppliers, and other interested parties in decisions and actions.
      - b. Ethical conduct toward customers builds a strong competitive position that has been shown to affect both business performance and product innovation positively.
  - F. Ethics Contributes to Profits
    - 1. A company cannot nurture and develop an ethical organizational climate unless it has achieved adequate financial performance in terms of profits.
      - a. Ethical conduct towards customers builds a strong competitive position that has been shown to positively affect business performance and product innovation.
      - b. Research has shown that the world's most ethical companies tends to outperform other publicly traded companies
      - c. Companies perceived by their employees as having a high degree of honesty and integrity have a much higher average total return to shareholders than do companies perceived as having a low degree of honesty and integrity.
    - 2. Ethics is becoming one of the management issues within the effort to achieve competitive advantage.
- VI. Our Framework for Studying Business Ethics
- A. Part One provides an overview of business ethics and explores the development and importance of this critical business area, as well as the role of various stakeholder groups in social responsibility and corporate governance.
  - B. Part Two focuses on ethical issues and the institutionalization of business ethics, such as business issues that create ethical decision making in organizations and the institutionalization of business ethics and includes both mandatory and voluntary societal concerns.
  - C. Part Three explores the ethical decision-making process and then at both individual and organizational factors that influence decisions.
  - D. Part Four explores systems and processes associated with implementing business ethics into global strategic planning.
    - 1. The more you know about how individuals make decisions, the better prepared you will be to cope with difficult ethical decisions.
    - 2. It is your job to make the final decision in an ethical situation that affects you: Sometimes that decision may be right; sometimes it may be wrong.

## DEBATE ISSUE: TAKE A STAND

Have your students split into two teams. One team will argue for the first point, and the other will argue for the opposing view. The purpose is to get students to realize that there are no easy answers to many of these issues. This issue deals with whether ethical companies are more profitable. Those who argue that ethical businesses are more profitable could point to the different studies showing a positive correlation between ethics and profitability, the goodwill gained from ethical conduct, and the additional customer confidence associated with an ethical company. The opposition might point out that some dishonest companies have gotten away with only small penalties for misconduct and that companies must be more concerned with obtaining profits than spending time worrying about ethics.

## “RESOLVING ETHICAL BUSINESS CHALLENGES” NOTES

The instructor may wish to ask which students see this as an ethical issue and which see it as a legal issue. Is there a difference of opinion between business and nonbusiness-major students? The instructor can add additional pressures through providing different scenarios such as assuming that: Lael had personally encountered sexual harassment in the past, has financial difficulties and needs this job to pay off student loans, learns that Nikhil is very sick and will soon be leaving the company or that Nikhil’s father condoned his actions, etc.

The instructor may wish to discuss where the line is between loyalty to the company and loyalty to the staff you manage. Given the nature of the franchise Best East Motels operates under, Nikhil is breaking the agreement set out in the franchise employee handbook and should be reported, but to whom? However, if Lael goes public with the harassment allegations, the family could lose its franchise.

Lael knew that putting pressure on the female employees to report on the behavior of the boss’s son was problematic. Lael also felt it would not be appropriate taking her concerns to Nikhil personally about these allegations. If Lael reports the information to the owner, it would become an official allegation. This could affect the motel’s reputation and image in the community, and she would be responsible for it. This example illustrates that uncovering an unethical act is the first step but following through with the right action may be more difficult. These situations can be extraordinarily difficult for employees, particularly ones who have limited experience upon which to draw. It is in situations like these that a clear code of conduct and a strong ethics and compliance program will minimize the opportunity for misconduct.