# ***Business Foundations - A Changing World 12th edition Ferrell Solutions Manual***

SKU: 9781260088366-SOLUTIONS

# Chapter 2: Business Ethics and Social Responsibility

## SUMMARY

In this chapter, we take a look at the role of ethics and social responsibility in business decision making. First, we define business ethics and examine why it is important to understand the role of ethics in business. Next, we explore a number of business ethics issues to help you learn to recognize such issues when they arise. Finally, we consider steps businesses can take to improve ethical behavior in their organizations. The second half of the chapter focuses on social responsibility and unemployment. We survey some important issues and detail how companies have responded to them.

## LEARNING OBJECTIVES

**LO 2-1** Describe the importance of business ethics and social responsibility.

**LO 2-2** Detect some of the ethical issues that may arise in business.

**LO 2-3** Specify how businesses can promote ethical behavior.

**LO 2-4** Explain the four dimensions of social responsibility.

**LO 2-5** Evaluate an organization's social responsibilities to owners, employees, consumers, the environment, and the community.

**LO 2-6** Evaluate the ethics of a business's decision.

## KEY TERMS AND DEFINITIONS

| | |
|---|---|
| **bribes** | Payments, gifts, or special favors intended to influence the outcome of a decision. |
| **business ethics** | Principles and standards that determine acceptable conduct in business. |
| **codes of ethics** | Formalized rules and standards that describe what a company expects of its employees. |
| **consumerism** | The activities that independent individuals, groups, and organizations undertake to protect their rights as consumers. |
| **corporate citizenship** | The extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders. |
| **ethical issue** | An identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical. |
| **plagiarism** | The act of taking someone else's work and presenting it as your own without mentioning the source. |
| **social responsibility** | A business's obligation to maximize its positive impact and minimize its negative impact on society. |
| **sustainability** | Conducting activities in a way that allows for the long-term well-being of the natural environment, including all biological entities; involves the assessment and improvement of business strategies, economic sectors, work practices, technologies, and lifestyles so that they maintain the health of the natural environment. |
| **whistleblowing** | The act of an employee exposing an employer's wrongdoing to outsiders, such as the media or government regulatory agencies. |

## CONTENT OUTLINE

The following section provides the flow of information using the **LEARNING OBJECTIVES** as a guide, **KEY TERMS** learners will need to take away from the course, and a notation of when to use **POWERPOINT SLIDES** with **LECTURE NOTES** to drive home teaching points. There is also a reminder on when **CONNECT** activities can be used. This feature was created to facilitate in-class or online discussions more effectively.

| | | |
|---|---|---|
| LO 2-1 | Describe the importance of business ethics and social responsibility.<br>• Introduction<br>• Business Ethics and Social Responsibility<br>• The Role of Ethics in Business | Key Terms:<br>• Business ethics<br>• Social responsibility |

| PowerPoint Slides: | Lecture Outline and Notes: |
|---|---|
| **PPT 2.5** | I. Business Ethics and Social Responsibility<br>A. **Business ethics** are principles and standards that determine acceptable conduct in business.<br>B. Acceptable behavior is determined by:<br>1. The organization<br>2. Stakeholders and interest groups<br>3. Competitors<br>4. Government regulators<br>5. The public<br>6. The individual's personal principles |
| **PPT 2.6** | C. Global Trust in Different Industries (Figure 2.1)<br>1. In business, trust is the glue that holds the customer relationship together.<br>2. The recent global financial crisis took a toll on consumer trust of financial services companies.<br>D. "Tone at the top"<br>1. Managers must show a strong commitment to ethics and compliance.<br>2. "Tone at the top" requires top managers to acknowledge their own role in supporting ethics and compliance. |

| | |
|---|---|
| | 3. Top managers must:<br>a. Create strong relationships with ethics and compliance department.<br>b. Clearly communicate expectations for ethical behavior to all employees.<br>c. Educate managers/supervisors about the company's ethics policies.<br>d. Train managers and employees on what to do if an ethics crisis occurs. |
| **PPT 2.7** | E. **Social responsibility** is a business's obligation to maximize its positive impact and minimize its negative impact on society.<br>1. Social responsibility and ethics are not the same.<br>a. Ethics refers to individual's or work group's decisions.<br>b. Social responsibility is the impact of the entire organization's activities on society.<br>F. Laws and regulations |
| **PPT 2.8** | 1. Timeline of Ethical and Socially Responsible Activities (Table 2.1) |
| **PPT 2.9** | 2. Dodd-Frank Act<br>a. Passed to reform the financial industry and offer consumers protection against complex and/or deceptive financial products.<br>b. Enacted after the most recent recession. |
| **PPT 2.10** | II. The Role of Ethics in Business<br>A. Growing concerns about legal and ethical issues in business strengthen the public's perceptions that ethical standards and the level of trust in business need to be raised.<br>1. Recent legal and ethical issues:<br>a. Subprime loans and foreclosures<br>b. Accounting fraud<br>c. Cybercrimes<br>d. Deceptive advertising<br>e. Unfair competitive practices<br>2. Learning to recognize and resolve ethical issues is a key step in evaluating ethical decisions. |

| LO 2-2 | Detect some of the ethical issues that may arise in business.<br>• Recognizing Ethical Issues in Business<br>○ Fairness and Honesty<br>○ Making Decisions about Ethical Issues | Key Terms:<br>• Ethical issue<br>• Bribes<br>• Plagiarism |
|---|---|---|

| | |
|---|---|
| **PPT 2.12** | B. Recognizing ethical issues in business<br>1. **Ethical issue** is an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical.<br>2. Recognizing ethical issues is the most important step in understanding business ethics.<br>3. Best way to judge the ethics of a decision is to look at a situation from a customer's or competitor's viewpoint. |
| **PPT 2.13** | C. **Bribes** are payments, gifts, or special favors intended to influence the outcome of a decision.<br>1. Many business issues seem straightforward and easy to resolve on the surface, but are in reality very complex.<br>2. Experience with the culture in which a business operates is critical to understanding what is ethical or unethical.<br>3. One of the principal causes of unethical behavior in organizations is overly aggressive financial or business objectives. |
| **PPT 2.14** | D. Organizational Misconduct in the US 2018 (Table 2.2) |
| **PPT 2.15** | E. Misuse of Company Time<br>1. Theft of time is a common area of misconduct observed in the workplace.<br>2. Many employees spend an average of 1 hour/day using social media sites or watching YouTube.<br>3. Time theft costs are estimated to cost companies hundreds of billions of dollars annually. |
| **PPT 2.16** | F. Abusive or intimidating behavior is the most common ethical problem for employees.<br>1. Bullying is associated with a hostile workplace when a person or group is targeted and is threatened, harassed, belittled, verbally abused, or overly criticized.<br>a. Within the concept of abusive behavior, intent should be a consideration.<br>b. Abusive behavior is difficult to assess and manage because of diversity in culture and lifestyle. |

| | |
|---|---|
| **PPT 2.17** | G. Actions Associated with Bullies (Table 2.3) |
| **PPT 2.18** | H. Misuse of company resources has been identified as a leading issue in observed misconduct in organizations.<br>1. Issues might include:<br>a. Spending an excessive amount of time on personal e-mails<br>b. Submitting personal expenses on company expense reports<br>c. Using the company copier for personal use<br>2. Many companies have implemented official policies delineating acceptable use of company resources. |
| **PPT 2.19** | I. Conflict of Interest<br>1. Exists when a person must choose whether to advance his or her own personal interests or those of others.<br>2. To avoid, employees must be able to separate their personal financial interests from their business dealings.<br>3. Inside trading is the buying or selling of stocks by insiders who possess material that is still not public.<br>J. Least Corrupt Countries (Table 2.4) |
| **PPT 2.20** | K. Fairness and Honesty<br>1. Employees must:<br>a. Abide by the laws.<br>b. Cause no harm through dishonesty.<br>c. Use company resources fairly and honestly.<br>d. Be aware of company policies.<br>e. Recognize ethical behavior.<br>f. Use fair competition practices.<br>g. Give full disclosure of potential harm by a product.<br>2. Communications<br>a. Be truthful in advertising<br>b. Product safety<br>c. Product labeling |

| | |
|---|---|
| **PPT 2.21** | 3. Business Relationships<br>a. Keep company secrets.<br>b. Meet obligations.<br>c. Avoid undue pressure forcing others to act unethically.<br>d. **Plagiarism** is taking someone else's work and presenting it as your own without mentioning the source.<br>L. Making Decisions about Ethical Issues<br>1. It can be difficult to recognize specific ethical issues.<br>2. People often need years of experience to accurately recognize and react to ethical situations.<br>3. Questions to Consider in Determining Whether an Action is Ethical (Table 2.5) |

| | | |
|---|---|---|
| LO 2-3 | Specify how businesses can promote ethical behavior.<br>• Improving Ethical Behavior in Business | Key Terms:<br>• Codes of ethics<br>• Whistleblowing |

| | |
|---|---|
| **PPT 2.22** | M. Improving Ethical Behavior in Business<br>1. Three factors that influence business ethics (Figure 2.2):<br>a. Individual Standards and Values<br>b. **PLUS** Managers' and Co-Workers' Influence<br>c. **PLUS** Opportunity: Codes and Compliance Requirements<br>d. **EQUAL** Ethical/Unethical Choices in Business<br>2. Many employees use different ethical standards at work than they do at home.<br>3. The activities and examples set by managers and co-workers are critical in gaining consistent ethical compliance.<br>4. If a company fails to provide good examples and direction, confusion and conflict will develop.<br>a. This can lead to unethical choices in business. |
| **PPT 2.23** | N. Why a Code of Ethics Is Important (Table 2.6)<br>O. **Codes of ethics** are formalized rules and standards that describe what a company expects of its employees.<br>1. Employees must have established ethics policies if employees are expected to determine acceptable conduct.<br>2. Codes and policies on ethics encourage the creation of an ethical culture in the company.<br>3. The enforcement of ethical codes and policies through rewards and punishments increases the acceptance of ethical standards by employees.<br>P. **Whistleblowing** is the act of an employee exposing an employer's wrongdoing to outsiders such as the media or government regulatory agencies.<br>1. One of the most important components of an ethics program is a means through which employees can report observed misconduct anonymously.<br>2. More companies are establishing programs to encourage employees to report illegal or unethical practices internally.<br>3. In 2010, Congress passed the Dodd-Frank Act, which includes a "whistleblower bounty program." |

| | |
|---|---|
| **PPT 2.29** | Q. Ethical Trends in Business<br>1. The current trend is to move away from legally based ethical programs to cultural or integrity-based programs that make ethics a core organizational value.<br>2. Effective business ethics programs are good for business performance.<br>3. Firms that develop higher levels of trust function more efficiently and effectively and avoid damaged company reputations and product images. |

| | | |
|---|---|---|
| LO 2-4 | Explain the four dimensions of social responsibility.<br>• The Nature of Social Responsibility | Key Terms:<br>• Corporate citizenship |

| | |
|---|---|
| **PPT 2.26** | III. The Nature of Social Responsibility<br>A. Four Dimensions of Social Responsibility (Table 2.7)<br>1. ***Financial and Economic Viability***: Being profitable<br>2. ***Legal responsibilities:*** Obeying the law (society's codification of right and wrong); playing by the rules of the game<br>3. ***Ethical responsibilities***: Being ethical; doing what is right, just, and fair; avoiding harm<br>4. ***Philanthropic Activities:*** Being a "good corporate citizen"; contributing to the community and quality of life |
| **PPT 2.25** | B. **Corporate citizenship** is the extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders.<br>1. Commitment to corporate citizenship indicates a strategic focus on fulfilling the social responsibilities expected of it by its stakeholders.<br>2. Involves action and measurement of the extent to which a firm embraces corporate citizenship philosophy and following through by implementing appropriate initiatives.<br>3. A Selection of the World's Most Ethical Companies (Table 2.8) |
| **PPT 2.27-2.28** | C. The Arguments For and Against Social Responsibility (Table 2.9) |

| LO 2-5 | Evaluate an organization's social responsibilities to owners, employees, consumers, the environment, and the community.<br>• Social Responsibility Issues<br>• Unemployment | Key Terms:<br>• Consumerism<br>• Sustainability |
|---|---|---|

| | |
|---|---|
| | IV. Social Responsibility Issues<br>A. Managers consider social responsibility on a daily basis.<br>1. Among the many social issues that managers must consider are their firms' relations with:<br>a. Owners and stockholders<br>b. Employees<br>c. Consumers<br>d. Environmental advocates<br>e. Communities |
| **PPT 2.25** | B. Relations with Owners and Stockholders<br>1. Maintain proper accounting procedures.<br>2. Provide investors with all relevant information.<br>3. Protect owner's rights and investments. |
| **PPT 2.29** | C. Employee Relations<br>1. Provide a safe workplace and pay them adequately.<br>2. Provide equal opportunities for all employees.<br>3. Keep them informed of what is happening in the company.<br>4. Listen to their grievances and treat them fairly. |

| | |
|---|---|
| **PPT 2.30** | D. Consumer Relations involves the activities that independent individuals, groups, and organizations undertake to protect their rights as consumers.<br>1. Write letters.<br>2. Lobby government agencies.<br>3. Make public service announcements.<br>4. Boycott irresponsible companies.<br>E. Consumer Bill of Rights (John F. Kennedy, 1962)<br>1. The right to safety<br>2. The right to be informed<br>3. The right to choose<br>4. The right to be heard |
| **PPT 2.31** | F. Sustainability Issues<br>1. The scope of sustainability is broad:<br>a. Conducting activities in a way that allows for the long-term well-being of the natural environment, including biological entities.<br>2. Involves the assessment and improvement of business strategies, economic sectors, work practices, technologies, and lifestyles so that they maintain the health of the natural environment.<br>3. Environmental Protection emerged as a major issue in the 20th century.<br>G. Pollution<br>1. Water: Society is demanding clean water<br>2. Air: Acid rain and global warming<br>3. Land: Garbage, strip mining, and poor forest conservation |
| **PPT 2.33** | H. Alternative energy |
| **PPT 2.35** | 1. Reducing carbon emissions forces alternative energy sources.<br>I. Companies Responses to Environmental Issues<br>1. Making processes more eco-friendly is called "green" business.<br>2. Recycling aluminum, paper, and glass.<br>3. Using green power sources when available.<br>4. Larger companies may have a vice president of environmental affairs. |

| | |
|---|---|
| **PPT 2.36** | J. Community Relations<br>1. Donations to local and national charities<br>2. Volunteer support of local causes |
| **PPT 2.37** | V. Unemployment<br>A. Unemployment, while an economic issue, also carries ethical implications.<br>B. Some companies refuse to hire unemployed workers due to their lack of skills; however, critics have accused these companies of not wanting to take the time to train employees.<br>C. Factory closures are seen as unethical because they contribute to unemployment.<br>D. Protesters say unemployment leads to the growing gap between rich and poor. |

| LO 2-6 | Evaluate the ethics of a business's decision. | Key Terms: |
|---|---|---|

| | |
|---|---|
| **PPT 2.38** | VI. Solve the Dilemma: *Customer Privacy*<br>A. Checkers Pizza was one of the first to offer home delivery service, with overwhelming success.<br>B. Major pizza chains soon followed suit, taking away Checkers's competitive edge.<br>C. Checkers's founder, Jon Barnard, needed a new gimmick to beat the competition.<br>1. Developed a computerized information database that would make Checkers the most efficient competitor and provide insight into consumer buying behavior.<br>2. Telephone customers were asked their phone number, if they had ordered before, and their address and previous order information came up on the computer screen. |
| **PPT 2.39** | D. The new system was successful:<br>1. After 3 months, Barnard decided to give an award to the family that ate the most Checkers pizza.<br>2. As Barnard began to plan for the event, however, he began to think that maybe the family might not want all the attention and publicity. |
| **PPT 2.40** | E. Critical Thinking Questions:<br>1. What are some of the ethical issues in giving customers an award for consumption behavior without notifying them first?<br>2. Do you see this as a potential violation of privacy? Explain.<br>3. How would you handle the situation if you were Barnard?<br>*[Answers appear under the End of Chapter Teaching Resources section of this Instructor's Manual.]* |

## BOXED TEXT DISCUSSION QUESTIONS WITH SUGGESTED ANSWERS

### Enter the World of Business: *NFL Tackles Safety Expectations*

The NFL has been dealing with the after-effects of football players who have sustained repeated head injuries/concussions. Many retired NFL players have faced neurological issues, depression, and higher instances of Alzheimer's disease. Many of these retired players have filed lawsuits against the league. The NFL paid nearly $1 billion to retired players who had suffered brain injuries and has provided an additional $10 million to fund brain injury research and safety/education programs. As more information about playing football and brain injuries has become available, some players are choosing to retire early and parents are faced with the dilemma of trying to balance the risk from playing football with their children's desire to play.

1. **To what extent should there be something of a caveat emptor/buyer beware when someone chooses to professionally play football in the NFL?**

   Answers will vary with some students arguing that players know the risk and are VERY well compensated. Other students will argue that no amount of compensation is adequate when it comes to your health and that the NFL is not taking sufficient steps to help correct the issue.

2. **Can the NFL ever really make professional football totally safe?**

   Most students will probably argue that it is impossible. Other students will argue with new breakthroughs in technology and polymers and that new helmets might create significant improvement.

3. **Is playing in the NFL different from being a NASCAR driver, a police officer, or an astronaut?**

   Answers will vary but many students will state that playing in the NFL is unique because the chance of injury is statistically much higher.

### Going Green: *Chipotle Chips Away at Food Safety Advancements*

Chipotle Mexican Grill has always done things differently from other restaurant chains. The founder, Steve Ells, wanted to set Chipotle apart by creating a customer-service-oriented atmosphere where customers could see their food being prepared with fresh ingredients. Chipotle's "food with integrity" offerings use fresh food with ingredients grown naturally and sustainably from local farmers whenever possible.

Despite its desire to be socially responsible, Chipotle encountered challenges in food safety. An outbreak of E. coli was traced to a small number of Chipotle stores. The CEO closed 43 restaurants in two states to completely rid the stores of any possible contaminated products, clean and sanitize their entire kitchens, and retrain staff on proper food handling procedures. Chipotle's managerial focus changed from career development back to day-to-day activities. Thanks to the company's strong ethical reputation and quick response, the company survived.

**1. How does Chipotle attempt to be socially responsible?**

Chipotle's emphasizes "food with integrity" offerings using fresh food with ingredients grown naturally and sustainably from local farmers whenever possible. About 40 percent of beans used in its food offerings are organic, and Chipotle purchases about 10 million pounds of vegetables from local farms every year.

**2. What actions did Chipotle take to assure stakeholders it was taking the E. coli outbreak seriously?**

Chipotle closed 43 restaurants in two states to completely rid the stores of any possible contaminated products, cleaned and sanitize their entire kitchens, and retrained staff on proper food handling procedures.

**3. Why do you think customers are willing to do business with Chipotle even after the E. coli outbreak?**

Answers will vary, but most students will mention the Chipotle reputation, the quick response and retraining of the staff, and the "free" burritos to bring back customers.

## Consider Ethics and Social Responsibility: *Eaton Maintains a Successful Ethics Program*

Eaton Corporation, a power management company based in Cleveland, is committed to social responsibility. The Eaton code of ethics contains standards meant to reduce the opportunity for misconduct. The emphasis is on personal responsibility and being proactive. The new employee ethics training reinforces the company values and employees are given the tools to help monitor their own ethical behavior. Additionally, Eaton modified a vision statement to focus on sustainability. Eaton Corporation has a company-wide commitment to ethical business.

**1. What are some of the methods Eaton uses to encourage employees to be ethical?**

Eaton has a detailed code of ethics containing the standards meant to reduce the opportunity for misconduct. The new employee ethics training reinforces the company's values and prepares each new employee to recognize ethical issues. Additionally, the company has in-place tools to help employees monitor their own behavior before an ethical issue develops.

**2. How does Eaton incorporate sustainability into its business?**

Eaton is undertaking three initiatives to increase its environmental impact: selling sustainable products, decreasing its environmental footprint, and reporting its progress toward its environmental goals.

**3. How does Eaton use sustainability to improve community relations?**

Eaton uses sustainability to improve its community relations by supplying products that help customers reduce their energy consumption.

## Entrepreneurship in Action: *A Step Ahead: Blake Mycoskie Provides Leadership for Social Entrepreneurship*

After a trip to Argentina, entrepreneur Blake Mycoskie, was inspired to create Toms, a for-profit business with a socially-focused mission. For each pair of shoes sold, it delivered a free pair of shoes to children in need. This concept became known as the One for One® model.

The company expanded from shoes to eyeware and coffee. Mycoskie later sold half of the business to Bain Capital and used $100 million from the sale to start Toms Social Entrepreneurship Fund.

1. **How did concern for social responsibility lead Mycoskie to create Toms?**

   After seeing how many Argentinian children's parents could not afford to purchase shoes for their children, Blake Mycoskie created Toms. For each pair of shoes sold, it delivered a free pair of shoes to children in need.

2. **How has Mycoskie expanded its One for One business model?**

   Mycoskie expanded the model into selling eyewear and coffee. For every pair of eyewear sold, the company provides treatment or prescription glasses for those in need and a purchase of a bag of coffee provides an entire week's supply of safe drinking water.

3. **How has Toms paved the way for other companies?**

   Toms' example has encouraged and inspired other companies to follow suit. More importantly, the $100 million proceeds from a partial sale of Toms were used to start the Toms Social Entrepreneurship Fund. The fund provides financial support to companies that want to use business as a way to improve society.

## So You Want a Job in Business Ethics and Social Responsibility

**What has helped drive the increasing awareness of the importance of business ethics and social responsibility?**

Under pressure from employees and consumers, businesses understand the importance of ethical and social responsibility issues. They recognize that being socially responsible and ethical is good for the business's bottom line, as well as for its reputation. As the trend continues to grow, more and more businesses are likely to employ individuals who are experts in these areas.

## END OF CHAPTER TEACHING RESOURCES

### Check Your Progress

1. Define *business ethics*. Who determines whether a business activity is ethical? Is unethical conduct always illegal?

   Business ethics refers to principles and standards that determine acceptable conduct in business. Ethical behavior is determined by the public, government regulators, interest groups, and competitors. Unethical conduct is not always illegal, but it does not conform to the principles of society. Ethics goes beyond legal issues. It attempts to build trust among the participants of business.

2. **Distinguish between ethics and social responsibility.**

   Ethics relates to an individual's values and standards and the decisions he or she makes. Social responsibility concerns the impact of a business's activities on society.

3. **Why has ethics become so important in business?**

   The negative publicity received by many unethical business practices has made consumers very much aware of ethical issues. Consumers are putting pressure on businesses to behave more ethically with all parties involved directly or indirectly in business affairs.

4. **What is an ethical issue? What are some of the ethical issues discussed in your text? Why are they ethical issues?**

   An ethical issue is an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical. The text categorizes a number of issues, including misuse of company time, bribery, abusive behavior, misuse of company resources, conflicts of interest, communications, and business relationships. These are ethical issues because they involve actions that may be considered unacceptable by society, they could be perceived as unfair, and they could cause potential harm to other stakeholders.

5. **What is a code of ethics? How can one reduce unethical behavior in business?**

   A code of ethics is a set of formalized rules and standards that describes what a company expects of its employees. One can reduce unethical behavior in business by developing and promoting a code of ethics, and by using different methods such as training, group discussions, or corporate communications.

6. **List and discuss the arguments for and against social responsibility by business (Table 2-9). Can you think of additional arguments (for or against)?**

   Arguments for social responsibility include (1) business helped create problems and should help to solve them; (2) business has the financial and technical resources to help solve problems; (3) as a member of society, business should do its fair share to help others; (4) social responsibility can help prevent increased government regulation; and (5) social responsibility helps to ensure economic survival. Arguments against social responsibility include (1) social responsibility detracts from the profit-making objectives of business; (2) participation in social responsibility programs gives business power at the expense of other segments of society; (3) business may not have the expertise to solve social problems; and (4) social problems are the responsibility of government agencies.

   Students may be able to offer additional arguments for or against being socially responsible.

7. **What responsibilities does a business have toward its employees?**

   A business should provide employees with a safe workplace, pay them adequately, listen to their grievances, and treat them fairly.

8. **What responsibilities does business have with regard to the environment? What steps have been taken by some responsible businesses to minimize the negative impact of their activities on the environment?**

   Businesses have the responsibility of maintaining a healthy environment. Businesses must take responsibility for their actions as part of society. Some companies focus on prevention as part of environmental responsibility. Others view the protection of the environment as a way of reducing costs and increasing profits. More companies are adopting social responsibility audits to determine how effective the programs have been and to help develop future programs.

9. **What are a business's responsibilities toward the community in which it operates?**

   Businesses have responsibilities to the general welfare of the communities and societies in which they operate. Many businesses simply want to make their communities better places for everyone to live and work.

## Get Involved

1. **Discuss some recent examples of businesses engaging in unethical practices. Classify these practices as issues of conflict of interest, fairness and honesty, communications, or business relationships. Why do you think the businesses chose to behave unethically? What actions might the businesses have taken?**

   Student answers will vary, but they should support their answers with information from the text.

   *Sample student answer:* The Environmental Protection Agency discovered that Volkswagen had been installing defeat devices in its diesel vehicles to fool regulators during emissions testing. The defeat device was able to detect when the vehicle was being tested for emissions and caused the vehicle to operate at less than maximum capacity so it would pass the test. In reality, on the road the vehicles gave off many times the allowable limit of emissions. This caused a massive recall for VW, a major loss in reputation, and likely fines from governments that had been deceived by VW.

   Potential ethical issues include fairness and honesty. Employees at VW purposefully installed the defeat devices to fool regulators, a dishonest activity used to increase sales of its vehicles. It also was dishonest with dealers and consumers. VW released advertising promoting the environmental benefits of its vehicles, when in reality its emissions far surpassed accepted standards. There was likely insufficient communication inside the company since the misconduct went on for so long unchecked. VW also neglected its legal and environmental responsibilities. Its use of defeat devices to fool regulators violated laws. Additionally, it neglected its responsibilities to the environment by developing vehicles that heavily polluted the environment with its high emissions. In this example, students might assume that certain employees at VW were more concerned with short-term gains than long-term viability. Some proposed actions would have been to spend longer periods of time developing diesel vehicles that did meet emissions standards. Also, those who found out about the misconduct could have become whistleblowers and alerted authorities to the deception before the situation worsened.

2. **Discuss with your class some possible methods of improving ethical standards in business. Do you think that business should regulate its own activities or that the federal government should establish and enforce ethical standards? How do you think businesspeople feel?**

   Student answers will vary. Students who might favor businesses regulating their own activities might argue that businesses understand their industries better and would therefore have a better understanding of which ethical standards to adopt. Businesses could also come up with unique and creative ways to meet the needs of their stakeholders than if they were constrained by regulation. Those who favor government regulation might point toward the many business scandals that have occurred in recent years and the necessity for government regulation to close loopholes and keep businesses from advancing their own interests at the expense of society. Most businesspeople prefer less regulation as it tends to limit their activities, although some opinions of businesspeople might vary depending on the person.

3. **Find some examples of socially responsible businesses in newspapers or business journals. Explain why you believe their actions are socially responsible. Why do you think the companies chose to act as they did?**

   Student answers will vary depending on their choices. Some good places to investigate would be *Ethisphere* magazine's "World's Most Ethical Companies" or *Fortune* magazine's "Best Companies to Work for."

## Build Your Skills: *Making Decisions about Ethical Issues*

The following information is extracted from *Gray Matters: The Ethics Game Manual*:

**Objectives**

1. Make students aware of various ethical challenges that can arise in their day-to-day job responsibilities.
2. Stimulate students' imaginations regarding the ethical consequences of their business decisions and actions.
3. Strengthen students' skills in applying textbook knowledge to hypothetical situations.
4. Involve students in discussion rather than have them listen passively to a lecture or read an abstract set of ethical principles.

This game is designed to teach the solving of ethical dilemmas that occur almost every day in every kind of business. It is also designed to create controversy. It is structured to bring out more than just one company's policies—to allow the participants to argue multiple approaches to ethical dilemmas. For example, is there only one answer—regardless of the circumstances? Or are there modifying influences? Right is right, but what is right?

The intentional controversy doesn't stop with the answers. It carries on into the values of the answers. In a game, there must be scorekeeping. You may disagree with the values of some of the answers, but do you always agree with the penalties in football? Or that fine line that distinguishes a hit from an error in baseball?

Ethics is dynamic. No one solution is always correct nor is another solution always wrong. Some solutions appeal to some while other solutions appeal to others. In *Gray Matters*, every mini-case poses four solutions. In some cases, only one solution is correct; in others, more than one is correct. But which is most correct? In a few mini-cases, none of the posed answers are correct. But one will be the best selection from the options listed.

In theory, each possible answer should entice somebody, thereby generating discussion. It is the discussion that is valuable, for out of the discussion will come the rationale for an answer. None of the posed answers can be changed. The players must pick the one they can best justify—based on company policies, their experiences, their education, their ethical training, and their beliefs.

**Materials**

- 4 mini-case cards (in-textbook exercise)
- 4 each A-B-C-D answer flags (instructor can use 3x5 index cards where the answer letters (A-B-C-D) are written one per card)

**How to Play**

Competition adds spice to the game, just as it does in real life. It can be played by individuals, or by a larger playgroup divided into teams. When the class is too large to play as individuals, organize the players into competitive groups. The number of groups optimally should be 3 to 5 (but can be as many as 10). Preferably, no more than 4 to 6 players should be in each group. A group spokesperson will be appointed.

For each mini-case, the group should be allowed 5 minutes for discussion among themselves. At the end of 5 minutes, the leader will ask each group spokesperson to hold up an answer flag pertaining to the group's selected answer. The answers will be recorded by the instructor. Each group will then be asked to explain their answer in one minute. Based on the answer flag presented, each group will be awarded points according to the answers given below. (You may want the groups to keep track of their own scores, or you may wish to photocopy and use the score sheet at the end of this section.)

What is the most essential ingredient to the success of the game? Complete discussion of the ethical dilemma in each question and answer by all the participants.

**Answers, Point Values, and Rationale**

| CASE NO. | ANSWER | POINTS | RATIONALE |
|---|---|---|---|
| **4** | A | 0 | May solve the workload problem if you can physically and mentally carry this double workload over a long period. Does not solve the ethical issue, so no credit. |
| | B | 5 | It brings to the attention of the supervisor the poor work ethic of your colleague. It also may give you an opportunity to properly expand your own activity. |
| | C | 10 | If it works, this is the easy way to solve the problem. Be aware, however, if it doesn't work, you may have to take the next step. |
| | D | -5 | Pushes the problem solving onto someone else. The problem is between you, your supervisor, and your colleague. Solve it there. |

| CASE NO. | ANSWER | POINTS | RATIONALE |
|---|---|---|---|
| **7** | A | 5 | May do some good. |
| | B | 5 | May do some good. |
| | C | 0 | Too confrontational. |
| | D | 10 | Gets the right people involved in solving the problem. |

| CASE NO. | ANSWER | POINTS | RATIONALE |
|---|---|---|---|
| **36** | A | -10 | How many other company policies do you also ignore? |
| | B | 5 | May solve the problem but then it may not. In fact, it may get very confrontational and most likely will not. |
| | C | -10 | In that case you deserve -10 points. |
| | D | 10 | This is the easiest way for you to handle the problem and the one with the most chance of success. |

| CASE NO. | ANSWER | POINTS | RATIONALE |
|---|---|---|---|
| **40** | A | -10 | That makes you also guilty of theft. |
| | B | 0 | He probably knows that. |
| | C | 10 | Ethics will have it investigated. |
| | D | 5 | This may also get the problem investigated; but then again, it may not. |

**Score Sheet**

Photocopy the chart, fill in the group leader's name at the top of each column, and record the points for the choices selected.

| CASE NO. | ANSWER | POINTS |
|---|---|---|
| 4 | A | 0 |
| | B | 5 |
| | C | 10 |
| | D | -5 |
| 7 | A | 5 |
| | B | 5 |
| | C | 0 |
| | D | 10 |
| 36 | A | -10 |
| | B | 5 |
| | C | -10 |
| | D | 10 |
| 40 | A | -10 |
| | B | 0 |
| | C | 10 |
| | D | 5 |
| TOTAL POINTS | | |

*Source: Gray Matters: The Ethics Game by George Sammet Jr., Lockheed Martin Corporation.*

## Solve the Dilemma: *Customer Privacy*

1. **What are some of the ethical issues in giving customers an award for consumption behavior without notifying them first?**

   In such a situation, the consumption behavior of the rewarded customer is communicated to the public. It violates the right of the consumer to be informed. The company should know what the effect of this award might have on the winner: negative consequences may be as likely as positive ones.

2. **Do you see this as a potential violation of privacy? Explain.**

   The publicity given to the customer violates privacy: it reveals to the public some of his or her behaviors (here, pizza eating habits). However, the family might not mind the publicity or feel like it violates their privacy. Students might have different opinions regarding the seriousness of this issue.

**3. How would you handle the situation if you were Barnard?**

Barnard should contact the family concerned and inform them that an award rewarding Checkers' best customer may be given to them if the family accepts the award. The program of the award (especially the news story associated with it) should be described in detail. If the family refuses the award, the next best customer could be contacted.

## Build Your Business Plan: *Business Ethics and Social Responsibility*

Find an example within your community of an ethical and/or societal violation, which can be an issue still being resolved. Lead a discussion on the facts of this violation and what the implications are of this violation with the community. Have the students identify the stakeholders affected by this action.

Ask the students for volunteers to discuss the industry they are considering for their business plan. Probe them to identify any environmental violations, product defects, recalls, etc. that they need to be aware of as they proceed to gather information on this industry.

## See for Yourself Videocase: *Warby Parker: An Affordable World Vision*

Eyewear firm Warby Parker incorporates social responsibility into its business model. When the founders first conceived of a firm that would sell affordable eyewear, they did not even make it to the final round of their school's business plan competition. Nearly a decade later Warby Parker had sold its 1 millionth pair of glasses. The inspiration for the firm occurred when the founders realized that one company has a near monopoly on the optical industry, giving it almost complete control over prices. Warby Parker wanted to sell eyewear at affordable prices. Glasses are manufactured in-house. Initially, they were only sold on the Internet. This allowed Warby Parker to sell designer-style eyeglasses for as little as $95 each.

Warby Parker is partnered with the nonprofit Visionspring to provide access to affordable eyewear to those in need in developing countries. For each pair of glasses sold, Warby Parker donates money for Visionspring to source a pair of glasses. Visionspring then partners with entrepreneurs—many of them women—to sell the glasses to those with vision problems in their respective countries for about $4 a pair.

Warby Parker is living proof that a company can be socially responsible and profitable. Although it started out as an online-only firm, Warby Parker has since opened 27 retail locations and is valued at $1.2 billion. Since sight is crucial to many trade jobs, Warby Parker is contributing to economic development by enabling those in developing countries to gain access to eyewear.

1. **Describe Warby Parker's ethical vision in selling eyeglasses?**

   Warby Parker's ethical vision is to provide eyewear to consumers at affordable prices. It wants the organization to be characterized by integrity with a customer focus. Additionally, Warby Parker desires for its business model to contribute to economic development and help struggling consumers in other countries. Its donation of money to Visionspring for every pair of glasses sold allows it to increase access to vision for consumers in developing countries that could not normally afford eyewear.

2. **How does Warby Parker integrate social responsibility into its business?**

   Warby Parker has integrated a model that for every pair of glasses sold, it will donate money to the nonprofit Visionspring to source a pair of glasses to sell to someone in need in other parts of the world.

3. **Why does Warby Parker charge $4 to those in need of eyeglasses in developing countries?**

   Warby Parker and Visionspring do not donate the glasses directly; rather, local women are trained to sell the glasses for $4. These opportunities for employment empower women and help spur economic development in the region.

## Team Exercise

Sam Walton, founder of Walmart, had an early strategy for growing his business related to pricing. The "Opening Price Point" strategy used by Walton involved offering the introductory product in a product line at the lowest point in the market. For example, a minimally equipped microwave oven would sell for less than anyone else in town could sell the same unit. The strategy was that if consumers saw a product, such as the microwave, and saw it as a good value, they would assume that all the microwaves were good values. Walton also noted that most people don't buy the entry-level product; they want more features and capabilities and often trade up.

Students will form teams and assign the role of defending this strategy or casting this strategy as an unethical act. They can present their thoughts on either side of the issue.

*Sample Answers:*

Strategy as ethical: As long as there are plenty of these minimally equipped products on hand and Walmart is transparent about their prices and functionality, then there is nothing wrong with the strategy. In fact, it is an excellent business strategy because it attracts consumers and provides them with the choice to purchase the minimally equipped product or choose to upgrade to a higher-priced product with more features.

Strategy as unethical: Walmart is using a penetration pricing strategy to drive competitors out of business. Its entire strategy is to draw consumers away from the competition into its stores and then up-sell them to higher-priced products. Although this might not be illegal as long as the lower-priced products are available, this practice is unfair to local businesses that cannot compete and is an underhanded way of persuading consumers to come to its stores.

## CONNECT ACTIVITIES

### Cocoa Exchange Values Social Responsibility

**Learning Objective:** 2-1 Describe the importance of business ethics and social responsibility.

**Activity Summary:** The Cocoa Exchange is a direct-to-consumer subsidiary of Mars Inc., the global manufacturer of confectionery and other food products. Specifically, the Cocoa Exchange is a marketplace for its salespeople to connect with chocolate-loving consumers, offering tasty chocolate and sugar-based products. As a nature-related business, operating in an ethically and in a socially responsible manner is important for leadership of the company.

**How to Use Activity**: After watching the video, divide the class into four groups. Have each group spend 15 minutes responding to a specific prompt:

1. What behaviors contribute to an ethical business?
2. What behaviors detract from an ethical business?
3. What behaviors contribute to a business being socially responsible?
4. What behaviors detract from a business being socially responsible?

Then, invite each group to share their responses with the class.

**Class Discussion:** What are the benefits of working in an organization which is ethical and socially responsible? How would you define ethical behavior? What are the positive benefits of being socially responsible? Are there any drawbacks?

### The Dilemma of Cross-Selling Insurance Policies

**Learning Objective:** 2-5 Evaluate an organization's social responsibilities to owners, employees, consumers, the environment, and the community.

**Activity Summary:** Cross-selling is a common sales technique that can benefit a salesperson's book of business when done correctly. Conversely, it can also damage their (and their company's) creditability when done with malicious intent. In this case, students read about a common scenario in which they understand and apply an ethical dilemma in cross-selling.

**How to Use Activity:** Today's students often come to the classroom with a variety of work experiences. After assigning this activity as a homework assignment, facilitate a discussion around the term ethical dilemma. Invite students to share their own experiences; it is likely that they will have observed or at least been made aware of similar examples supporting the term.

**Class Discussion:** Have you ever observed, or been a part of an ethical dilemma? What did you do? What news headlines have you seen recently relating to social responsibility or workplace ethics? *(Note to Professor: Examples include Enron, Facebook, and Online Privacy.)*

## Greyston Bakery and Eileen Fisher

**Learning Objective:** 2-4 Explain the four dimensions of social responsibility.

**Activity Summary:** Greyston Bakery and Eileen Fisher are two companies striving to engage in socially responsible behavior. The case illustrates that it is possible to invest money and time in people, neighborhoods, education, and customers, while still seeing a healthy profit. Both companies are fully invested in putting social responsibility first, and as a result, their businesses.

**How to Use Activity:** Ask students to draw two columns on a sheet of paper. Write "Socially Responsible" at the top of one column and "Not Socially Responsible" on another. Give students ten minutes to fill out the columns by listing both actions and the names of companies who may fall into each column. After they have completed their tables, invite select students to share.

*(Note to Professor: If time permits, facilitate a discussion around student responses. In some instances, what one student views as being socially responsible may not be viewed the same by another student.)*

**Class Discussion:** What does it mean to be socially responsible? Have you ever been a part of a company in which you've found them to be socially responsible, or vice versa? Explain. Do you place a priority on purchasing from socially responsible companies? Why or why not? Have you heard of any companies who have received criticism from *not* being socially responsible?

**BONUS TEACHING RESOURCES**

## Recycling: A Dilemma for Business Firms

*In the United States, the amount of consumer and industrial waste has been increasing regularly. It was estimated that by the year 2010, total municipal solid waste reached 250 million tons. Ecological authorities frequently tout recycling as a means of slowing down waste and the need for landfill space. Biodegradable products, those which decompose, are also recommended.*

As more companies strive to be ecologically responsible as well as appeal to consumers by offering "green" products, many have come to believe the evidence that such programs may actually be economically profitable. Many companies now offer "green" versions of their traditional products as the proof mounts that many consumers favor these products. Organizations such as Walmart are reducing pollution and waste in anticipation of future federal regulatory mandates. 3M offers toilet-bowl brushes made from the leftover plastic fibers from is Scotch-Brite cleaning cloths. Similarly, Recycline offers toothbrushes and other household and personal grooming products made from recycled Stonyfield Farm yogurt containers.

Many large retailers offer recycling centers for paper, plastics, and aluminum. Best Buy even offers electronics recycling at many of its stores. Large grocery chains frequently give consumers discounts on their purchases if they bring their own bags with them. While recycling has become increasingly widespread, recycling centers can be problematic for two reasons: (1) the lack of a market for recycled products in some areas and (2) the cost of maintaining the recycling centers. For example, one manager of a major retailing firm pointed out that people used the recycling bins to dispose of all kinds of unwanted trash and garbage, disregarding the specific types of materials to be placed in the bins. Every morning, employees had to clean the parking lot of debris from the recycling bins. People would toss in glass, metal, cloth, and garbage in plastic sacks—materials not to be deposited in the recycling bins.

Many cities in the United States, concerned about the declining amount of landfill space, have introduced recycling for trash and garbage pickup. Those municipalities, as in the case of individual business firms, need an outlet for materials saved for recycling. Sorting is a requirement for municipal recycling—whether done by each household or by specialized sorting equipment.

Two trends may lead to increased recycling by consumers and business firms. One trend is charging for nonrecyclable garbage. For example, some municipalities refuse to pick up nonrecycled trash and garbage, forcing households to hire private firms to pick up nonrecycled items. Another trend is through regulation that requires recycling, such as the German Green Point Law, which requires manufacturers to assume responsibility for the disposal of their packaging.

When consumers and business firms find it is in their economic interests to recycle, then perhaps producers will find ways to use recycled products. For example, Pitney Bowes of Canada Ltd. is one of many companies that now sells copiers that take reusable toner cartridges. Thermo Tech

Technologies Inc., another Canadian company, uses a patented technology to turn organic wastes into animal feed supplements or fertilizers.

Technology also has many innovative uses proposed for recycled plastics—some as reformulated plastics, others as insulation or building materials. Biodegradability is the main problem with plastics. Biodegradable plastics, however, can be composted and are therefore healthier for the environment. Household and personal care product firm Seventh Generation offers biodegradable diapers, cleaners, and detergents. While these products must be composted properly in order to fully biodegrade, they do represent a step in the right direction toward fully biodegradable plastics.

Recycling, no doubt, is here to stay. Social responsibility on the part of consumers and businesses will encourage greater use of recycling. Governmental regulation also will spur greater use of recycling in the future.

**Sources:**

Kristina Dell, "The Promise and Pitfalls of Bioplastic," Time, May 3, 2010, http://content.time.com/time/magazine/article/0,9171,1983894,00.html; "The Home Depot and the Environment," Home Depot, Inc. corporate website, http://corporate.homedepot.com/sites/default/files/image_gallery/The%20Home%20Depot%20and%20the%20Environment%202018.pdf; Jacquelyn Ottman, "A Little Creativity Could Lead to a Big Advantage," *Marketing News*, March 27, 1995, p. 11; Kevin Kelly, "It Really Can Pay to Clean up Your Act," *Business Week*, November 7, 1994, p. 141; Johanna Powell, "Companies Get Their Due for Public Service," *The Financial Post*, November 12, 1994, p. s15; Seventh Generation website, https://www.seventhgeneration.com.

1. **Why has recycling become more popular and widespread?**

   As more consumers become concerned about the environment and climate change, recycling has become more common. Many cities offer recycling services now, and some organizations also have recycling bins for commonly recycled items. Furthermore, companies like Best Buy offer recycling services for difficult-to-recycle items like electronics. As resources become scarcer and more consumers reject companies perceived as wasteful, organizations have sought to improve their recycling practices in order to cut down on waste and to increase goodwill.

2. **What are some of the issues hindering businesses and organizations from offering further recycling services?**

   Recycling can be expensive because people must be hired to sort the recycled goods. There must also be a market for recyclables. In recessionary periods, oftentimes it becomes too expensive to continue to offer recycling programs because companies seek to cut back on extra expenses. Additionally, some cities and towns have found that recycling programs can be expensive to maintain.

3. **What are some of the solutions companies are developing to help cut down on waste and to recycle more?**

   Some companies are turning to energy saving measures like using renewable energy. They are also looking toward cutting-edge materials to help reduce waste that ends up in landfills. Biodegradable plastics in packaging are relatively new and, while they are not in widespread use, are growing in acceptance and popularity.

## Term Paper or Project Topic

These topics may be assigned as individual or collaborative projects:

- Advantages and Disadvantages of Social Responsibility Programs for Business
- A Study of Unethical Business Practices
- A Survey of Social Responsibility Programs in Corporations (can do a questionnaire survey of local firms)
- Ralph Nader: Consumer Advocate
- Environmental Issues and Their Solutions

## Guest Speaker Suggestions

1. A professor or teacher to talk about ethics in business.
2. A representative from a business firm to speak about business ethics, problems with business ethics in a competitive environment, and the importance of business ethics in dealing with consumers.
3. A business communication or English professor or teacher to speak to the class on what constitutes plagiarism, how to paraphrase, and how to use correct documentation.
4. An individual (concerned environmentalist, teacher, professor, etc.) to speak on local environmental issues.
5. A consumer relations manager to describe consumer relations programs of a local firm.

## Teaching Suggestions

1. As indicated in "Teaching Suggestions" for Chapter 1, instructors may wish to vary the daily organization of the lesson. Varying the sequence of activities adds variety to class presentation.

At the beginning of the chapter in the textbook and in this *Instructor's Manual*, objectives are provided. Many instructors write the objectives on the chalkboard or on an overhead at the beginning of the class session and then at the end of the session check off each objective to determine if all the objectives have been achieved. Educational research indicates students learn more effectively when there is a summarization or review of the textbook content at the end of class sessions.

2. As a "writing to learn" exercise, allow approximately five minutes for students to write their thoughts or summary on this topic:

   What is the importance of ethics and social responsibility in business today?

   The writing exercise can be done with or without the use of the textbook. The purpose of the exercise is for students to consider the topic and apply the knowledge learned in the reading assignment. Research indicates that the act or process of writing helps students to retain information. Feedback may be done by calling on a few students at random to read their writing. Remember, not all feedback need be for a letter grade; instead, the feedback may be treated as an activity to enhance learning. For large classes, an alternative to calling on individual students is to break into small groups and have them share their writing within the small group.

3. "Check Your Progress" is important for this chapter. A suggestion for large lecture halls is to assign different question numbers to different rows. Then call upon one person in a row to give his or her answer.

4. The instructor can lecture using the "Lecture Outline and Notes," covering all of the chapter content. An alternative is not to cover the entire chapter but simply to use the PowerPoints to cover main points of the chapter; then the instructor may have time to use the "Supplemental Lecture" and/or "Controversial Issue" material provided in this *Instructor's Manual*. If students are to have read the chapter prior to class, then the instructor may spend less time lecturing and more time with additional material, discussion questions, and boxed material or cases.

5. Use the quiz provided. Have students write answers quickly. Then have students call out the correct answers in unison. Ask if there are any questions about any of the answers.

6. Occasionally, an instructor may wish to give oral instructions or information to reinforce listening skills. One business professor gives part of her test instructions orally; she believes that teachers reward inattention by repeating information time and time again. She warns students that she will give the instructions only once and will not repeat instructions. Her students learn to listen!