

Chapter 2

BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

Suggested Additional Assignments

Research

Ask students to use an Internet search engine to find a news article dealing with an ethics dilemma. They should be prepared to discuss it using the ethics checklist in the chapter.

Chapter Overview

Chapter Theme

Ethical behavior offers significant advantages: society as a whole benefits; executives who behave ethically have happier, more fulfilled lives; and unethical behavior can destroy a company. Apparently, many students have never discussed these issues with parents, teachers, or religious leaders. It is useful for an authority figure to say openly that ethical behavior is important.

In this chapter, we will present five basic issues.

1. Why bother to act ethically at all?¹
2. What is the most important consideration when making an ethical decision? To do the right thing for the right reason? Or to do what produces the most favorable results?
3. Should you apply your personal ethics in the workplace? Or should you have different ethical values at home and at work?
4. Is the primary role of corporations to make money? Or do they have responsibilities to workers, communities, customers, and other "stakeholders"?
5. When, if ever, is lying acceptable?

Quotes of the Day

The one and only social responsibility of business is to increase its profits.

—Milton Friedman (1912–2006), Nobel laureate in economics

The business of business is serving society, not just making money.

—Dayton Hudson corporate constitution

Students should read both of the above and then break into teams with each team debating and defending the position represented by each of the above.

¹ Some of the ethics cases and discussion questions featured in this chapter are adapted from *Applied Business Ethics* by Dean A. Bredeson, Cengage Learning, 2011.

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Action Learning

Upon completion of the debate period, approximately 20–25 minutes, the students should then present their conclusions to the rest of the class in the form of a checklist of the pros and cons used by each in their debate. The students should be instructed that necessarily the purpose of the debate is not to force the opposing team to accept the other argument of the opposing side. The objective is to think critically about the position and to design a resolution to the two apparently opposing positions that would be applicable to a business operation.

Action Learning and Research

Each student should be asked to locate the corporate mission and ethics policy for his or her company. After obtaining a copy, they should then summarize and comment on the scope of each. Students should opine on the adequacy of the statements and policies. Are they specific or vague? Do they actually appear to be in operation in the day to day corporate environment? If the student believes they are adequate, comment on specific aspects that support the position. If the policies appear to be less than adequate, then draft a suggested policy and mission statement. Any student who is not currently employed or unable to locate a policy for his or her corporation should select one from the publicly held companies accessible on the internet, and proceed with the assignment using one that they select.

Why Bother with Ethics?

Key Issue

“Doing the right thing” may not generate the greatest profit, but over the long run it will lead to the greatest personal satisfaction and fulfillment.

Question: What do you need to be happy in life?

Answer: Sometimes students give pretty outrageous answers: \$1 billion, a mistress; etc. It is useful for instructors to talk about the kinds of nonmonetary experiences that bring them satisfaction. Although students may joke about these sorts of “sappy” things, they are listening. Many times, they will come up to us later in the semester and say, “I would have done such-and-such yesterday, but I remembered our discussion about ethics, so I didn’t.”

Question: What if, after making purchases at the local drugstore, you realize that the cashier forgot to charge you for an item? Or suppose a waitress forgets to charge you for the drink you ordered with your meal?

Answer: It is useful to begin the ethics discussion with small, personal issues such as these because they seem more real to students than abstract business issues. Virtually everyone has had an experience such as these. Usually, at least one student will have been a waitress who has had to pay for items she forgot to charge to the customer. In this way, students can see that their decisions have an impact on real people. It impresses students if instructors give examples of how they behaved [ethically] in such situations. It is also useful if the instructor can give examples of situations in which they behaved unethically and regretted it.

Society as a Whole Benefits from Ethical Behavior

Mutual trust is a vital part of a successful society. No society will survive long if the people are constantly having to protect themselves from dishonesty and the government is compelled to regulate businesses severely to ensure fairness. John Akers, the former chairman of IBM, puts it this way:

There is no escaping this fact: the greater the measure of mutual trust and confidence in the ethics of a society, the greater its economic strength.

People Feel Better When they Behave Ethically

Profitability is generally not what motivates managers to care about ethics. Managers want to feel good about themselves and the decisions they have made; they want to sleep at night.

Unethical Behavior Can Be Very Costly

Unethical behavior does not always damage a business, but it certainly has the potential of destroying a company overnight. So why take the risk?

Even if unethical behavior does not devastate a business, it can cause other, subtler damage. In one survey, a majority of those questioned said that they had witnessed unethical behavior in their workplace and that this behavior had reduced productivity, job stability, and profits. Unethical behavior in an organization creates a cynical, resentful, and unproductive workforce.

Although there is no *guarantee* that ethical behavior pays in the short or long run, there is evidence that the ethical company is more *likely* to win financially. Ethical companies tend to have a better reputation, more creative employees and higher returns than those that engage in wrong-doing.⁹

Key Issue: Making Decisions

An organization has responsibility to many stakeholders: society, customers, employees, and shareholders. Individuals also have responsibility to their organization. Balancing all of these interests may be difficult, but it is important to at least make the effort. The Sarbanes Oxley Act of 2002 represents a government effort to legislate ethical behavior and provide for sanctions when breaches are detected at least under the provisions of the Act. You can find the Act and related materials at the following websites:

- <http://news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf>
- <http://www.sarbanes-oxley.com/>

There is a great deal of information contained related not only to the passage and contents of the Act but to related activity since passage. Understanding the provisions of Sarbanes Oxley is crucial in the world of business today, whether large multinational or small and local in scope. After exploring the links, retain those specific parts or articles that will continually be used as reference material in your **PRJ**.

Organization's Responsibility to Society

Utilitarian versus Deontological Ethics

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

Utilitarian Ethics

Under utilitarian ethics, a correct decision is one that tended to maximize overall happiness and minimize overall pain. Risk management and cost-benefit analyses are examples of utilitarian business practices.

The critics of utilitarian thought argue that it is simply not possible to "measure" happiness. Others say that utilitarians simply let the ends justify the means, and that they allow for bad behavior so long as the it generates good in the end. A third group argues that utilitarian philosophies err in equating pleasure with ethical behavior, and pain with wrongful behavior.

Deontological ethics

Many ethicists believe that utilitarians have it all wrong, and that the results are not as important as the reason for which the decision is made. To a deontological thinker, the ends do not justify the means.

Most followers of deontological ethics agree that utilitarianism is lacking, and that winning in the end does not automatically make a decision right. Ethical decisions, they argue, are those made for good and moral reasons in the first place, regardless of the outcome.

Key Issue: Ethics and Making Decisions

Tobacco companies now admit that their product is “linked to a number of serious diseases, including lung cancer and heart disease.” Just when it looks as if the tobacco industry is on the ropes, the industry invents new and different ways to increase its market, especially among the most vulnerable consumers—teenagers. The Food and Drug Administration issued regulations to prevent companies from advertising to children. To blunt the impact of these regulations, tobacco companies developed new strategies. They focussed on hip new packaging and Internet advertisements. For instance, Camel cigarettes sponsored a website that reviewed European rock concerts. Enthusiasts looking for information on a hot new group would also find advertisements for Camel cigarettes. RJR has introduced a line of “microsmokes” in artistic packages to attract the same audience that drinks microbrews.

It is illegal for anyone under age 18 to smoke, yet more than one-third of all teenagers do. Indeed, most smokers begin as teenagers. An ethical company would not promote its product to this age group, and tobacco companies say that they do not. (See for example, the RJR website at <http://www.rjrt.com>.)

General Question: Is this denial plausible? What types of tobacco marketing are ethical? In formulating your response, bear in mind the social responsibility of corporations, collectively and individually. Also consider the voluntary aspects of use, and the potential impact of withdrawing the product from the legal marketplace.

Example

After selecting University of Nebraska senior Christian Peter in the fifth round of the NFL draft, the New England Patriots discovered that he had been accused of rape, sexual battery, disturbing the peace, threatening to kill a parking lot attendant, and other violent crimes. He was on probation for one offense and waiting to be sentenced for another. At about the same time, Michael G. McDonough resigned from his position as finance director of the Boston Symphony Orchestra (BSO) amid allegations of sexual harassment. Three female BSO administrators reported that McDonough had engaged in a pattern of verbal and emotional harassment. McDonough applied for a job with the Philadelphia Orchestra. In the prior year, this orchestra had reported a deficit of more than \$2 million. It was eager to hire McDonough because, under his care, the BSO had been deficit-free.

Question: What should the Patriots and the Philadelphia Orchestra do? No football team likes to give up its fifth-round draft choice, and the Philadelphia Orchestra is in desperate need of a skilled finance director.

Answer: At first, the Patriots director of player development said, “Peter understands what this organization stands for, and that we’re not going to stand for any shenanigans.” Then newspaper columnists and Patriot fans complained that Peter’s activities were more than mere “shenanigans.” Fans said that they did not want to cheer a violent player who has a particular inclination to insult and degrade women. The Patriots released Peter instead of trading him to another team for compensation. Patriots owner Bob Kraft said, “We made a mistake and I’m not proud of it, but I am proud of the way we acted once we got full information. We felt we took the right stand.” Ironically, five NFL teams immediately bid to sign Peter. In the end, Peter took a year off from football and went into

counseling. Seven years later, he was still playing in the NFL. He had not been charged with any offenses since leaving college.

The BSO offered McDonough a year's salary and a car to resign. The Philadelphia Orchestra then hired him. Said a spokesperson for Philadelphia, "It wasn't proven. I wouldn't condemn the man until something is really found and something had happened here." Months before, the orchestra had settled its own sexual harassment case brought by a bassoonist who contended that she had been sexually harassed by another musician and the orchestra management had not taken any action to stop it.

Applying Personal Ethics in the Workplace

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

Ethics Case: No sheen on Sheen

Charlie Sheen, the star of the hit CBS TV show, "Two and a Half Men," has admitted to using large quantities of cocaine. He has been hospitalized with drug overdoses and has been charged with both misdemeanor and felony drug offenses which have several times led to probation. When asked about entering rehab, he said that only losers go to recovery programs and he could cure himself with his mind. He openly spent tens of thousands of dollars on prostitutes. His second wife filed a restraining order against him, alleging that he had pushed her down the stairs and threatened to kill her. He was also charged with a felony for threatening his third wife. She alleges he held a knife to her throat and said 'You better be in fear. If you tell anybody I'll kill you.' Then there was the widely reported incident in the Plaza Hotel in New York City in which the police escorted him to the hospital after he trashed his room and threatened the prostitute he had hired. His ex-wife and children slept in a room across the hall. Five months later, the police removed his twin sons from his house after their mother obtained a restraining order. On a radio show, Sheen made anti-Semitic comments about his boss, called him a clown and a charlatan and said that he "violently hated him." This boss was the most successful producer of comedy shows in the business.

Questions:

1. If CBS fired Sheen from his TV show, the network would lose tens of millions of dollars. At what point, if any, should CBS have fired him? If not for this, then for what?
2. Would you fire a warehouse worker who behaved this way? How much revenue does an employee have to bring in to be able to buy his way out of bad behavior?

Is the Primary Role of Corporations to Make Money?

A fundamental question in business ethics is: *What is the purpose of a corporation?*

The Shareholder Model

Noted economist Milton Friedman argued that corporations have two primary responsibilities. First, they must comply with the law. Second, they must make as much money as possible for shareholders. Companies were legally required to follow the "shareholder model" until the decade after the close of World War II. After American corporations supplied much of what was needed to stop Hitler, many politicians changed their attitudes toward benevolent decisions made by corporations. They softened restrictive language in corporation laws, so that companies could "do good deeds." Such action was not and is still not required, but it is allowed.

The Stakeholder Model

The alternative point of view is that corporations should take care of more than shareholders alone. It is not that the owners of a corporation should be ignored—shareholders are included as one of several groups of stakeholders in a firm. But, a company must also look out for (among others) its employees, its customers, and the communities in which it operates. It may even be that companies have an obligation to broader interests such as "society" or "the environment".

The remainder of this section in the textbook examines a company's ethical obligation to three specific stakeholders: employees, customers, and international contractors

****See the Ethics cases in the textbook.*

Organization's Responsibility to Its Employees

Key Issue: Executive Compensation

The merger of Gillette with P&G was dramatically more favorable to top management than to rank and file employees, 6,000 of whom were fired. The top three Gillette executives received a total of \$210 million in compensation after the merger.

Question: Who are the stakeholders affected by this corporate merger?

Answer: The employees and company shareholders are obviously affected, though not necessarily in the same manner. Additionally, the community in which the fired workers lived suffered as a result of the merger.

General Questions:

- How did this corporate merger look in the light of day?
- Did it violate important values—if so, which ones?
- Does it violate the Golden Rule?

Question: Why do top executives receive such tremendous compensation packages when companies merge?

Answer: One could argue that those particular individuals put in a tremendous amount of effort and offered expertise that was necessary for the deal to go through. On the other hand, one could argue that these payments have attributes in common with bribes.

General Questions: What is a company's obligation to its employees when companies merge? Are shareholders more concerned about short-term profits than engaged employees?

Organization's Responsibility to Its Shareholders

Additional Issue: Ford SUVs and Global Warming

Under the leadership of William C. Ford, Ford Motor Company announced that it would unilaterally increase the fuel economy of its SUVs by 25 percent. To achieve this goal, it would have to redesign its SUVs, at substantial cost.

Question: Why is this policy sound?

Answer:

- It is the right thing to do—to protect future generations from global warming. This decision is in keeping with important values.
- The decision could be profitable. Environmentally-conscious consumers may well decide to buy Ford SUVs instead of competitors' cars. Thus, sales may increase enough to make up for lower profits.
- By voluntarily increasing its fuel economy, Ford may head off tighter federal regulation.

Question: Why is this policy flawed?

- Ford shareholders should be able to decide individually how they want to invest their charitable dollar. Perhaps they would prefer to give money to their college, rather than supporting efforts to decrease global warming. Or perhaps they would rather give money to a political candidate who, if elected, would impose much more stringent requirements to prevent global warming. In any event, it should be their choice not William Ford's.

General Questions:

If students did the Update assignment, what did they discover about this SUV decision?

- Have other automobile manufacturers followed Ford's lead?
- Did Ford sales increase enough to offset the cost of making these design changes?
- Since May 2000, when the decision was announced, has Ford's stock price risen or fallen, compared with the market? Compared with other car manufacturers?

Organization's Responsibility Overseas

Issue: A Child's Life in Guatemala

A young girl is grateful for the opportunity to work long hours in a factory for pay of \$30 a week. Otherwise, her family would go hungry. Many American companies, such as Nike, Wal-Mart, and Sears, have been criticized for making goods in overseas sweatshops. Some economists argue, however, that sweatshops offer an escape from back-breaking rural poverty.

Question: Are there too many sweatshops, or too few?

The case *for* sweatshops:

- Industrialization is the first step out of poverty. Countries that industrialize ultimately end up with higher wages and a higher standard of living. Consider Taiwan and South Korea versus India.
- If sweatshops are required to pay higher wages and improve conditions, they will simply move to other countries or mechanize. In either case, workers will lose their jobs.
- If, alternatively, sweatshops increase wages, consumers will buy less, and factories will close.

The case *against* sweatshops:

- They are simply inhumane: children working 12 hour days under barbarous conditions. No civilized human being would buy products made in such conditions.

General Questions: How much are students willing to pay in higher prices to eliminate sweatshops and child labor? How much are they willing to pay in taxes to subsidize Third World incomes? What is our obligation as a citizen of the world?

Suggested Additional Assignment Follow-up: Interview

If students conducted the interview with a business person, this would be a good time to discuss them.

Net Research

To read stories and commentaries on real life heroes, visit the following website:

- <http://www.yourtruehero.org/>

To investigate a number of aspects of the sweatshop issue, visit the following website:

- <http://americanhistory.si.edu/sweatshops/>

For a variety of resources on ethical dilemma and strategies for resolving ethical challenges, visit:

- <http://www.mapnp.org/library/ethics/ethxgde.htm>

The following web links present materials related to the Sarbanes-Oxley Act of 2002, passed in response to some high profile corporate scandals and ethics breaches:

- <http://news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf>
- <http://www.sarbanes-oxley.com/>

Practice Exam

Matching Questions

Match the following people with their views:

- | | | |
|-----|----------------------------|---|
| (4) | A. Martin Luther King, Jr. | 1. Argued that “Ethics and competitiveness are inseparable.” |
| (1) | B. John Akers | 2. Third World countries need more sweatshops, not fewer. |
| (2) | C. Jeffrey Sachs | 3. Argued that “The one and only social responsibility of business is to increase its profits.” |
| (3) | D. Milton Friedman | 4. Argued that “An unjust law is not law at all.” |

True/False Questions

1. T **F** Immanuel Kant was a noted utilitarian thinker.
2. T **F** The shareholder model requires that business leaders consider the needs of employees when making decisions.
3. T **F** Modern China has experienced slower economic growth than did England during the Industrial Revolution.

4. **T** F John Stuart Mill's ideas are consistent with business use of risk management and cost-benefit analyses.
5. **T** F Society as a whole benefits from ethical behavior.

Multiple Choice Questions

1. Milton Friedman was a strong believer in the _____ model. He _____ argue that a corporate leader's sole obligation is to make money for the company's owners.
 - (a) **shareholder; did**
 - (b) shareholder; did not
 - (c) stakeholder; did
 - (d) stakeholder; did not
2. In the 1919 lawsuit Dodge v. Ford, the Dodge brothers and other major shareholders sued Henry Ford and his board of directors over nonpayment of dividends. The Michigan Supreme Court sided with _____ Incorporation laws at the time _____ companies to follow the shareholder model.
 - (a) Ford; required
 - (b) Ford; permitted
 - (c) **The Dodge brothers; required**
 - (d) The Dodge brothers; permitted
3. Which of the following historic events led to a significant change in corporation laws, and permitted companies to follow the stakeholder model?
 - (a) The Great Depression
 - (b) **World War II**
 - (c) The Election of John F. Kennedy
 - (d) The Moon Landing
 - (e) The Supreme Court's decision in Brown v. Board of Education
4. Which of the following wrote Utilitarianism, and believed that moral actions should "generate the greatest good for the greatest number"?
 - (a) Milton Friedman
 - (b) **John Stuart Mill**
 - (c) Immanuel Kant
 - (d) None of the above
5. Which of the following believed that the dignity of human beings must be respected, and that the most ethical decisions are made out of a sense of duty or obligation?
 - (a) Milton Friedman
 - (b) John Stuart Mill
 - (c) **Immanuel Kant**
 - (d) None of the above

Essay Questions

1. Executives were considering the possibility of moving their company to a different state. They wanted to determine if employees would be willing to relocate, but they did not want the employees to know the company was contemplating a move because the final decision had not yet been made. Instead of asking the employees directly, the company hired a firm to carry out a telephone survey. When calling the employees, these “pollsters” pretended to be conducting a public opinion poll and identified themselves as working for the new state’s Chamber of Commerce. Has this company behaved in an ethical manner? Would there have been a better way to obtain this information?

Answer: The company’s approach was unethical and, frankly, stupid, relying on the assumption that the employees would never speak to each other and connect the dots. Employees were amazed to find that they had all received the same calls, and were incensed when they realized what had happened. They vented their anger to a newspaper reporter, who wrote a front-page article about the company’s lies and insensitivity. The company spent millions on an employee relations campaign and a public-relations blitz but has yet to undo the damage. Steve Goldfarb, “Little white lies,” *Across the Board* 29, no. A5 (May 1992): 53.

2. When a fire destroyed the Malden Mills factory in Lawrence, Massachusetts, its 70-year-old owner, Aaron Feuerstein, could have shut down the business, collected the insurance money, and sailed off into retirement. But a layoff of the factory’s 3,000 employees would have been a major economic blow to the region. So instead Feuerstein kept the workers on the payroll while he rebuilt the factory. These actions gained him a national reputation as a business hero. Many consumers promised to buy more of the company’s patented Polartec fabric. In the end, however, the story did not have a fairy-tale ending: Five years after the fire, Malden Mills filed bankruptcy papers. The company was not able to pay off the loans it had incurred to keep the business going.

Did Feuerstein do the right thing?

Answer: Answers will vary.

3. Many socially responsible funds are now available to the investor who wants to make ethical choices. The Amana fund buys stocks that comply with Islamic laws. For example, it will not invest in holdings that earn interest, which is prohibited under Islamic law. The Ava Maria fund is designed for Catholic investors, the Timothy funds for evangelicals. The Sierra Fund focuses on environmentally friendly investments while the Women’s Equity Fund chooses companies that promote women’s interests in the workplace. On average, however, these socially responsible investments earn a lower return than standard index funds that mirror the performance of a stock index, such as the Standard & Poor’s 500.

Are socially responsible funds attractive to you? Do you now, or will you in the future, use them in saving for your own retirement?

Answer: Answers will vary.

4. When James Kilts became CEO of Gillette Co., the consumer products giant had been a mainstay of the Boston community for a hundred years. But the organization was going through hard times: Its stock was trading at less than half its peak price and some of its storied brands of razors were wilting under intense competitive pressure. In four short years, Kilts turned Gillette around—strengthening

its core brands, cutting jobs, and paying off debt. With its stock up 61%, Kilts had added \$20 billion in shareholder value.

Then suddenly Kilts sold Gillette to Procter & Gamble Co. for \$57 billion. So short was Kilts's stay in Boston that he never moved his family from their home in Rye, New York. The deal was sweet for Gillette shareholders—the company's stock price went up 13% in one day. And tasty also for Kilts—his payoff was \$153 million, including a \$23.9 million reward from P&G for having made the deal and a “change in control” clause in his employment contract that was worth \$12.6 million. In addition, P&G agreed to pay him \$8 million a year to serve as vice chairman after the merger. When he retires, his pension will be \$1.2 million per year. Moreover, two of his top lieutenants were offered payments totaling \$57 million.

Any downside to this deal? Four percent of the Gillette workforce—6,000 employees—were fired. If the payouts to the top three Gillette executives were divided among these 6,000, each unemployed worker would receive \$35,000. The loss of this many employees (4,000 of whom lived in New England) had a ripple effect throughout the area economy. Although Gillette shareholders certainly benefited in the short run from the sale, their profit would have been even greater without this \$210 million payout to the executives. Moreover, about half the increase in Gillette revenues during the time that Kilts was running the show were attributable to currency fluctuations. A cheaper dollar increased revenue overseas. If the dollar had moved in the opposite direction, there might not have been any increase in revenue. Indeed, for the first two years after Kilts joined Gillette, the stock price declined. It wasn't until the dollar turned down that the stock price improved.

Do CEOs who receive sweeteners have too strong an incentive to sell their companies? Is it unseemly for them to be paid so much when many employees will lose their jobs?

Answer: Answers will vary.

5. Many of America's largest consumer product companies, such as Wal-Mart, Nike and Land's End, buy fabric produced in China by Fountain Set Holdings Ltd. Chinese government investigators recently discovered that Fountain Set has contaminated a local river by dumping dye waste into it. What responsibility do U.S. companies have to ensure safe environmental practices by overseas suppliers?

Answer: Answers will vary.

Discussion Questions

1. Darby has been working for 14 months at Holden Associates, a large management consulting firm. She is earning \$75,000 a year, which *sounds* good, but does not go very far in New York City. It turns out that her peers at competing firms are typically paid 20% more and receive larger annual bonuses. Darby works about 60 hours a week, more if she is traveling. A number of times she has had to reschedule her vacation or cancel personal plans to meet client deadlines. She hopes to go to business school in a year and has already begun the application process.

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

Sometimes Darby stays late to work on her business school applications. Naturally she uses Holden equipment to print out and photocopy the finished applications. Darby has also been known to return catalog purchases through the Holden mailroom on the company dime. Many employees do that and the mailroom staff do not seem to mind.

Is Darby doing anything wrong? How would you behave in these circumstances?

Answer: Answers will vary.

2. H. B. Fuller Co. of St. Paul is a leading manufacturer of industrial glues. Its mission statement says the company “will conduct business legally and ethically.” It has endowed a university chair in business ethics and donates 5% of its profits to charity. But now it is under attack for selling its shoe-makers’ glue, Resistol, in Central America. Many homeless children in these countries have become addicted to Resistol’s fumes. So widespread is the problem that glue-sniffers in Central America are called “resistoleros.” Glue manufacturers in Europe have added a foul-smelling oil to their glue that discourages abusers. Fuller fears that the smell may also discourage legitimate users. What should Fuller do?

Answer: The board of directors announced that the company would stop selling Resistol in Central America. Instead, it halted sales to retailers and small-scale users in Honduras and Guatemala, but continued to sell the glue in large barrels to industrial users. It has substituted a less toxic chemical in the glue’s formulation and has tried to develop a safe water-based glue. It has contributed to community programs in Central America. Critics point out that the glue is still readily available to children in Nicaragua, El Salvador, and Costa Rica. Diana B. Henriques, “Black Mark for a Good Citizen,” *New York Times*, Nov. 26, 1995, P. C1.

3. According to the Electronic Industries Association, questionable returns have become the toughest problem plaguing the consumer electronics industry. Some consumers purchase electronic equipment to use once or twice for a special occasion and then return it—a radar detector for a weekend getaway or a camcorder to record a wedding. Or a customer might return a cordless telephone because he cannot figure out how it works. The retailer’s staff lacks the expertise to help, so they refund the customer’s money and ship the phone back to the manufacturer labeled as defective. Excessive and unwarranted returns force manufacturers to repackage and reship perfectly good products, imposing extra costs that squeeze their profits and raise prices to consumers. One retailer returned a cordless telephone that was two years old and had been chewed up by a dog. What ethical obligations do consumers and retailers have in these circumstances?

Answer: Answers will vary.

4. Genentech, Inc., manufactured Protropin, a genetically engineered version of the human growth hormone. This drug’s purpose was to enhance the growth of short children. Protropin was an important product for Genentech, accounting for more than one-third of the company’s total revenue of \$217 million. Although the drug was approved for the treatment of children whose bodies made inadequate quantities of growth hormone, many doctors prescribed it for children with normal amounts of growth hormone who simply happened to be short. There was no firm evidence that the drug actually increased growth for short children with normal growth hormone. Moreover, many people questioned whether it is appropriate to prescribe such a powerful drug for cosmetic reasons, especially when the drug might not work. Nor was there proof that it was safe over the long term. Was Genentech behaving ethically? Should it have discouraged doctors from prescribing the drug to normal, short children?

Answer: Answers will vary.

5. Rapper Ice-T's song *Cop Killer* generated significant controversy when it was released. Its lyrics in which anticipate slitting a policeman's throat. Such lyrics have, become reasonably common today, but they were much less common 20 years ago.

When *Cop Killer* was recorded, Time Warner, Inc., was struggling with a \$15 billion debt and a depressed stock price. Had Time Warner renounced rap albums with harsh themes, its reputation in the music business—and future profits—might have suffered. This damage might even have spilled over into the multimedia market, which was crucial to Time Warner's future.

Did Time Warner do anything wrong when it decided to release *Cop Killer*?

Answer: Answers will vary.