

## Chapter 2: Business Ethics and Social Responsibility

### 1. CHAPTER OVERVIEW

Chapter 2 explains the issues of right and wrong in business conduct. This explanation begins with the fundamentals of business ethics and social responsibility and provides a framework that allows students to engage with ethics and social responsibility material. This framework is important because it takes away students' tendency to believe questions of ethics are simply matters of opinion. Consider asking your students to use the "WH framework" throughout the course.

### 2. LEARNING OBJECTIVES

After reading this chapter, students will be able to answer the following questions:

1. What are business ethics and the social responsibility of business?
2. What are values?
3. How do values provide a starting point for thinking about ethics?
4. How are business law and business ethics related?
5. How can we use the WH framework to make ethical business decisions?

### 3. LECTURE NOTES WITH DEFINITIONS

#### a. In the news...

**Teaching tip:** For each chapter, consider asking students to relate current news items to material from the chapter.

In addition to ideas students come up with on their own, consider weaving in news stories provided by the McGraw-Hill. Stories are available via a McGraw-Hill DVD, and on the publisher's web site.

For Chapter Two, McGraw-Hill offers the following stories:

“Smoke & Mirrors: Tobacco Companies Have Been Steadily Adding More Nicotine to Cigarettes to Make Them More Addictive, Especially to Teenagers.”

- Apply the WH framework to the decisions tobacco companies are making.
- Is it “socially responsible” for tobacco companies to add nicotine to cigarettes?
- Should legal rules provide additional protections to vulnerable consumers, such as teenagers?

**b. What are business ethics and the social responsibility of business?**

**Ethics** is the study and practice of decisions about what is good or right.

**Business ethics** is the use of ethics and ethical principles to solve business dilemmas.

An **ethical dilemma** is a question about how one should behave that requires one to reflect on the advantages and disadvantages of the optional choices for various stakeholders.

The **social responsibility of business** consists of the expectations that the community places on the actions of firms inside that community’s borders.

**Teaching tip:** How are the concepts of ethics and social responsibility different? Do they overlap?

**c. What are values?**

Values are positive abstractions that capture our sense of what is good or desirable. They are ideas that underlie conversations about business ethics.

**d. How do values provide a starting point for thinking about business ethics?**

Values are essential for our clarifying why something is deemed good or bad. An understanding of values is necessary to begin using the WH framework for ethical business decisions.

**e. How are business law and business ethics related?**

The legality of the decision is the minimal standard that must be met. The law both affects and is affected by evolving ethical patterns.

**f. How can we use the WH framework for ethical business decisions?**

The WH framework provides practical steps for responding to an ethical dilemma.

- **W:** Whom would the decision affect?
  - Stakeholders: assorted groups of people affected by the firm's decisions, e.g., owners or shareholders, employees, customers, management, general community, future generations.
  - Interests of stakeholders will sometimes be in common and will sometimes conflict.
- **H:** How do we make ethical decisions?
  - We use classical ethical guidelines, such as these:
  - The Golden Rule—“Do unto others as you would have done to you.”
  - Public Disclosure Test—Suppose your decision would be published in the

newspaper. (Our actions are in the open rather than hidden.)

- Universalization Test—If I take action X, were others to follow my example, would the world be a better place?

**Teaching tip:** Choose a current ethical dilemma from the newspaper and ask students to apply the WH framework to the dilemma.

#### 4. *TEACHING IDEAS*

Connecting to the Core One way to connect to the core expands the chapter’s discussion of ethics and accounting. You may want to obtain and show your class a PBS videotape called “Bigger than Enron,” available at:

<http://www.pbs.org/wgbh/pages/frontline/shows/regulation/>

This videotape explores the collapse of Arthur Andersen, the accounting firm Enron used to help it hide its fraud. The tape asks, “What went wrong?”

Teaching Basics After showing “Bigger Than Enron,” ask the class questions that facilitate understanding. Here are some questions to get you started:

- What argument did Hedrick Smith present in the videotape?
- Why should business students care about the argument and facts in the videotape?
- Is there “another side” to the story?
- How did the videotape make you feel, as an American citizen?

#### 5. *ANSWERS TO BUSINESS ETHICS FLASHPOINTS*

**Flashpoint #1- Chevron in Ecuador:** When reacting to Chevron’s behavior in Ecuador, consider your personal value preferences and how these value preferences determine what you think is right and wrong in this situation. If one were to believe that Chevron’s behavior in Ecuador was unethical, this may be because of values such as respect, compassion, and safety. One may believe that these values were not upheld by Chevron, considering the health and environmental effects that their behavior had on the citizens and community of Ecuador.

**Flashpoint #3- The WorldCom Accounting Scandal:** The stakeholders directly affected by the behavior of WorldCom would be WorldCom shareholders, employees of WorldCom, and the telecommunications industry. Stakeholders in the background would be consumers in the telecommunications industry.

**Flashpoint #4- The Health Focus of Revolution Foods:** The behavior of Revolution Foods demonstrates consistency with all three ethical guidelines: the golden rule, the public disclosure test, and the universalization test. The goal of Revolution Foods was to create a product that was considerate of the health needs of its consumers, transparent about the ingredients being used, and mindful of creating a product that could change norms around healthy eating.

**Flashpoint#5- The Dofasco Steel Company’s Approach to Workers:** Values that are in conflict in this business scenario could be respect (for the employee’s health) over comfort (of maintaining current safety policies), or, excellence over conformity (to the common industry practices that are less safe for employees). When considering the WH Framework, stakeholders in this scenario would be the employees of Dofasco, management of Dofasco, owners and investors of Dofasco, and community members who were positively impacted by Dofasco’s Environmental Management Agreement. When considering the values that may be in tension among these various stakeholders, Dofasco may have appealed primarily to the universalization guideline and the golden rule guideline—focusing on the best way to treat employees as well as how to create a work environment that, if universalized, would promote healthier employee conditions.

**6. ANSWERS TO QUESTIONS AND PROBLEMS**

1.	If an American business manager was working in another country and was questioning engaging in a behavior that is ethical in that country, but unethical in the United States, that manager could apply the Public Disclosure Test. Specifically, the manager may want to think about whether the behavior would be considered ethical if it were to be broadcast in the country where she is working.
2.	The legality of a decision or behavior is the minimal standard that must be met. The existence of this minimal standard is essential for developing ethical business decisions. Overall, law and business ethics serve as an interactive system- informing and affecting each other.
3.	The legality of a decision is the minimal standard that must be met. The law both affects and is affected by evolving ethical patterns.
4.	The WH framework provides practical steps for responding to an ethical dilemma. The W refers to who would the decision affect such as stakeholders and their interests. The P refers to what are the ultimate purposes of the decision, specifically, which values are being upheld by the decision. The H refers to how we make ethical decisions, specifically, those principles and beliefs that guide our decisions.
5.	Employers to have a duty to respect the religious beliefs of their employees. They do not have to respect employees’ non-religious beliefs. So, the question here is whether Friedman’s veganism was a religious belief. Friedman argued that his belief that it is immoral and unethical for humans to kill or exploit animals is a religious belief. The court disagreed. Veganism does not “address fundamental or ultimate questions such as the meaning of human existence and the purpose of life, the beliefs were not comprehensive, because they did not derive from a power or being or faith to which all else was subordinate, and no formal or external signs of a

## Chapter 02 – Business Ethics and Social Responsibility

	religion were present.” The court viewed veganism as a secular philosophy and would not protect it.
6.	Presumably Kozlowski would have conducted himself differently if his actions were subject to public disclosure. The same result would entail from the universalization test as no one would want Kozlowski’s behavior to serve as an example for others nor did it make the world a better place.
7.	The WH framework calls for students to apply the whom, purpose and how tests. Students should determine the stakeholders affected by the decisions made by the state and the pharmaceutical companies, the values underlying these decisions and the principles applicable to making the decision in reaching their conclusions.
8.	Erickson won the suit. The value of justice applies here, e.g., people must be treated equally. Their gender should not matter. The court ruled that, “[a]lthough Title VII does not require employers to offer any particular type or category of benefit, when an employer decides to offer a prescription plan covering everything except a few specifically excluded drugs and devices, it has a legal obligation to make sure that the resulting plan does not discriminate based on sex-based characteristics and that it provides equally comprehensive coverage for both sexes.”
9.	The court ruled that the First Amendment does not give media agencies the right to record or broadcast an execution from within a prison. If ENI had applied the Golden Rule, it might have demonstrated more sensitivity to Timothy McVeigh’s family. It is unlikely his family would have wanted the world to watch the execution.
10.	Values that may be at odds include freedom, justice and efficiency.