

# CHAPTER 2

## Business Ethics

### Chapter Goals

The objective in Chapter Two is to introduce self-regulation as a technique for achieving a more desirable role for business in society. One finds that students often do not recognize the relationship between the free market, ethics and the law. Therefore, the instructor might remind the students that the law is probably most accurately regarded as a last resort after the market and self-regulation (ethics) have demonstrably failed. Therefore, ethics is not to be addressed in the abstract or as an afterthought. Rather, it should be at the heart of the students' inquiries.

### Chapter Learning Objectives

**At the end of this chapter, students will be able to:**

1. Describe some of the ethics issues associated with America's recent banking and finance crisis.
2. Discuss America's current moral climate.
3. Discuss the leading ethical decision-making theories.
4. Distinguish between teleological and deontological ethical systems.
5. Distinguish utilitarianism and formalism.
6. Describe Kohlberg's theory of moral development.
7. Describe some of the forces that encourage unethical behavior in the workplace.
8. Explain the general purpose of ethics codes in the workplace.
9. Explain the general requirements of the Foreign Corrupt Practices Act.
10. Discuss some of the risks and rewards of whistle-blowing.

### Chapter Outline

#### **Part One—Introduction to Ethics**

This chapter will examine the ethical climate of business and the role of ethics in business decision making. Our goal here is not to teach morality but to sensitize the reader to the vital role honor plays in building a sound career and a responsible life.

#### **Practicing Ethics: Baseball Bats Encourage Subprime Loan Approvals**

Hardiman was an appraiser for New Century Financial in 2004 and 2005. Her job was to weed out bad mortgage applications. Hardiman says she was fired for refusing to approve weak loans.

New Century was the nation's leading specialized subprime mortgage lender in 2006 with \$51.6 billion in loans. To achieve that volume, New Century and others often sold subprime mortgages with "teaser" adjustable rates to Americans with poor credit.

### **A. The Financial Crisis: A Corporate Scandal?**

Corporate misconduct has been a staple of the news in this 21st century. The nation's (and the world's) ongoing financial crisis, the most threatening since the Great Depression, appears to have been the product of a variety of forces including inadequate government regulation, dangerously easy credit, overextended borrowers, real estate speculation, greed, and a collapsed housing market. The facts may never be fully clear, but the International Monetary Fund has estimated that worldwide losses attributable to the U.S. residential and commercial real estate market collapse at about one trillion dollars or \$142 per person in the entire world.

### **B. Too Big To Jail?**

As of this writing in 2013, one of the continuing frustrations of the 2008 financial meltdown and the widespread financial misconduct of recent years is the fact that America's big banks have been largely untouched by *criminal prosecution*. Money laundering, mortgage fraud, foreclosure fraud, big rigging, and more have been discovered, but prosecutions have not followed. In fairness we note that tens of billions of dollars in *settlements* and *civil penalties* have been achieved.

Proving criminal wrongdoing "beyond a reasonable doubt"—and particularly proving the required intent to commit a crime—are daunting burdens. Thus, the government often leaves the wrongdoing to regulators who can pursue civil causes of action with their more modest standard of proof.

### **A Conscience at Goldman Sachs?**

"It makes me ill how callously people still talk about ripping off clients," mid level Goldman Sachs executive Greg Smith wrote in *The New York Times* as he was resigning from the firm in 2012. Smith, 33, a Stanford graduate and finalist for a Rhodes scholarship, wrote that he was once proud of Goldman Sachs's culture of teamwork, integrity, humility, and concern for clients, but that spirit, he said, had been lost. Goldman Sachs says that regular employee feedback contradicts Smith's characterizations. Critics say Smith was angry because he had been denied a promotion and raise prior to his departure. One Goldman client told *The New York Times* that the company had traded against its clients for years. "Come on, that is what they do and they are good traders, so I do business with them."

### **C. A Pattern of Abuse**

The subprime mortgage crisis was not the first instance of morally unhinged corporate conduct. The subprime scandal is reminiscent of the savings and loan crisis of the 1980s when \$150 billion evaporated, in part because of criminal behavior. The corporate greed of the Enron era played out on worldwide televisions as some of the great titans of American commerce shuffled off to prison.

### **Ethics Survey**

Executive wrongdoing has been a significant problem in recent years, but what about questionable employee behavior? Should some commonplace worker practices be considered unethical? The Ethics Officer Association and the Ethical Leadership Group sampled a cross section of workers at large companies nationwide.

## **I. America's Moral Climate**

Perhaps more than ever, Americans are questioning the nation's moral health. A 2013 NBC poll showed that 43 percent of Americans believe "a decline in moral values" is the number-one source of problems as a nation.

Sociologist David Callahan's book *The Cheating Culture: Why More Americans Are Doing Wrong to Get Ahead* argues that we are a society in moral decline. The result of this winner-take-all ethos, Callahan thinks, is a nation increasingly falling into two groups: a "winning class" who cheated their way to the top and an "anxious class" who fear falling behind if they too do not cheat. Cheating, in one form or another, does seem to be routine in American life.

### **Sex or Cell Phone?**

Cell phone practices may offer some insights about what we value most in life. Consider these recent study results:

- A 2013 survey found more than twice as many Americans were willing to give up sex for a week as to give up their cell phones.
- Twelve percent of U.S. mothers between the ages of 18 and 35 ("Millennial moms") admit to having used their cell phones while having sex.
- Fourteen percent of cell phone users in 15 nations admit to having interrupted sex to answer their cell phones.

### **A. College Students**

In perhaps the largest cheating scandal in school history, about 125 Harvard University undergraduates were investigated for collaborating on a 2012 take-home examination in a course on government. A large 2006 survey found 56 percent of graduate students in business admitted to cheating at least once in the previous year, the largest percentage of any discipline surveyed. The cheating evidence is discouraging, but some evidence of change should also be noted. Harvard MBA students have received a great deal of attention for their voluntary campaign to sign "The MBA Oath," a pledge that Harvard MBAs will act ethically, "serve the greater good," and avoid advancing their own "narrow ambitions" at the expense of others. Now an international oath project pledges higher standards of integrity and service by business leaders.

### **B. Changing Values?**

Responding to the 2012 survey, a record 81 percent of first-year students valued wealth as a goal, but only 46 percent sought a "meaningful philosophy of life." That result is essentially a reversal of the 1971 survey when 37 percent of freshmen identified being "very well off financially" as an essential or very important objective, and 73 percent felt the same about "developing a meaningful philosophy of life." One study based on the Narcissistic Personality Inventory of college students nationwide, responding to such statements as "I think I am a special person," concluded that the average college student today is about 30 percent more self-absorbed than the average student in 1982.

### **Too Little Studying = Cheating?**

According to the 2011 National Survey of Student Engagement, business majors spend less time studying than students in any other broad field. Nearly half of senior business majors say they study fewer than 11 hours per week outside of class. According to the Collegiate Learning Assessment national essay test, business majors in their first two years of college improve their writing and reasoning skills less than any other major.

## **Part two—**

### **I. Ethics Theories**

Business ethics refers to the measurement of business behavior based on standards of right and wrong, rather than relying entirely on principles of accounting and management. The pressure to produce is intense, and the temptation to cheat may be great. Therefore, when the businessperson faces a difficult decision, a common tactic is simply to do what he or she takes to be correct at any given moment. In one survey of ethical views in business, 50 percent of the respondents indicated that the word ethical meant “what my feelings tell me is right.”

Philosophers have provided powerful intellectual support for that approach. Existentialists, led by the famed Jean-Paul Sartre, believe standards of conduct cannot be objectively discovered or rationally justified via ethical theory and reasoning. No actions are inherently right or wrong. In Sartre’s famous interpretation, existence precedes essence. First humans exist; then they individually define what they are—our essence. Therefore, each individual is free, with no rules to turn to for guidance.

### ***Responsibility***

Indian spiritual, political, and civil rights leader, Mahatma Gandhi, viewed moral responsibility quite differently from Sartre. Gandhi’s view: “All humanity is one undivided and indivisible family, and each one of us is responsible for the misdeeds of all others.”

#### **A. Universal Truths?**

Philosophers seek to provide guidance beyond the uncertainties of ethical relativism.

##### **1. Religion**

Judeo-Christian beliefs, Islam, Confucianism, Buddhism, and other faiths are powerful ethical voices in contemporary life. They often feature efforts such as the Golden Rule to build absolute and universal standards. Scholarly studies indicate that most American managers believe in the Golden Rule and take it to be their most meaningful moral guidepost. Faith, rather than reason, intuition, or secular knowledge, provides the foundation for a moral life built on religion.

### ***Spirituality at Work***

Many businesses directly practice Christian principles in the workplace. Hobby Lobby, for example, closes its 525 stores on Sunday, donates Christian counseling services, and buys holiday ads promoting the Christian faith. The growing spirituality movement in business often does not involve religion at all. Rather, managers may see spirituality as an expression of the

whole person and a part of the broader search for meaning in life. Business, they think, must acknowledge the soul to maximize performance. [See <http://www.bbc.co.uk/religion/ethics>]

## 2. Libertarianism

Contemporary philosopher Robert Nozick built an ethical theory rooted in personal liberty. For him, morality coincided with the maximization of personal freedom. Justice and fairness, right and wrong are measured not by equality of results (such as wealth) for all, but from ensuring equal opportunity for all to engage in informed choices about their own welfare.

## 3. Virtue Ethics

In recent years, an increasing number of philosophers have argued that the key to good ethics lies not in rules, rights, and responsibilities but in the classic notion of character. As Plato and Aristotle argued, attention should be given to strategies for encouraging desirable character traits such as honesty, fairness, compassion, and generosity. [For an overview of virtue ethics, see <http://plato.stanford.edu/entries/ethics-virtue>]

## B. Teleology or Deontology—An Overview

Teleological ethical systems (often referred to as *consequentialist ethical systems*) are concerned with the consequences, the results, of an act rather than the act itself. A teleological view of life involves ends, goals, and the ultimate good. Duty and obligation are subordinated to the production of what is good or desirable. To the deontologist, on the other hand, principle is primary and consequence is secondary or even irrelevant. Deontology, derived from the Greek word meaning *duty*, is directed toward what ought to be, toward what is right. Similarly, deontology considers motives.

## C. Teleology

### Utilitarianism

A decision that maximizes the ratio of good over evil for all those concerned is the ethical course. Jeremy Bentham and John Stuart Mill were the chief intellectual forces in the development of utilitarianism. Their views and those of other utilitarian philosophers were not entirely consistent. As a result, at least two branches of utilitarianism have developed. According to *act-utilitarianism*, one's goal is to identify the consequences of a particular act to determine whether it is right or wrong. *Rule-utilitarianism* requires one to follow those rules that generate the greatest value for society. In sum, the principle to be followed for the utilitarian is the greatest good for the greatest number.

## Deontology

### Formalism

In the formalistic view of ethics, the rightness of an act depends little on the results of the act. Kant believed in the key moral concept of "the goodwill." The moral person is a person of goodwill, and that person renders ethical decisions based on what is right, regardless of the consequences of the decision.

Kant propounded the *categorical imperative*, the notion that every person should act on only those principles that he or she, as a rational person, would prescribe as universal laws to be applied to the whole of humankind. A moral rule is “categorical” rather than “hypothetical” in that its prescriptive force is independent of its consequences. Kant believed that every rational creature can act according to his or her categorical imperative because all such persons have “autonomous, self-legislating wills” that permit them to formulate and act on their own systems of rules.

## II. Using Ethical Reasoning: Two Cases

The instructor might wish to revisit the Practicing Ethics entries at the beginning of this chapter at this point and ask the students to identify whether their responses reflected utilitarian or formalist reasoning.

### A. Are Layoffs Unethical? Case One—Toyota

Despite its highly publicized product defect problems and the global financial crisis, Toyota has tried to continue its half-century-old policy of not laying off permanent employees. When Toyota halted production in some of its U.S. plants in 2008, the 4,500 idled workers were kept on with full pay and benefits at a cost estimated at more than \$50 million. Toyota executive Norm Bafunno said the retention decision was easy because the company used the economic slowdown as an opportunity to retrain its team members. Despite its protective policies, Toyota has laid off thousands of temporary workers and in 2010, its Fremont, California plant was shut down leaving 4,700 workers without jobs.

### B. Are Layoffs Unethical? Case Two (Part I)—Aaron Feuerstein and Malden Mills

Fabric manufacturer Malden Mills of Lowell, Massachusetts, provided 3,100 high-paid manufacturing jobs in the Boston area when a 1995 fire destroyed most of the plant. The next morning Aaron Feuerstein, CEO of the family-controlled mill, announced that the business would be rebuilt and all employees would retain their jobs.

Following the fire, makeshift production lines were developed in warehouses and about 85 percent of the employees returned to work with the remaining 400 workers or so remaining idle but paid. Professor Michael Useem, commenting on Feuerstein’s commitment to his workers, said that the idea had appeal: “The thinking is: employees can be seen as an ultimate competitive advantage. If you treat them well, they’ll pay you back in really hard work later on.”

### C. Are Layoffs Unethical? Case Two (Part 2)—Aaron Feuerstein, Malden Mills, and Bankruptcy

In November 2001, Malden Mills was forced to enter Chapter 11 bankruptcy proceedings for the purpose of reorganizing its finances under court protection. At the time, Malden Mills was bearing a \$140 million debt load. In late 2003, Malden Mills emerged from bankruptcy. Then in 2007, Malden Mills was once again forced into bankruptcy and was purchased by Chrysalis Capital partners, a private-equity firm that renamed the company Polartec LLC. Aaron Feuerstein’s association with the company ended with the sale.

## Part Three—Managerial Misconduct?

### A. Corporate Ethical Climate

Public attitudes toward big business are not positive. In Gallup's 2012 poll of confidence in major institutions only 21 percent of Americans expressed a "great deal" or "quite a lot" of confidence in big business and in banks. According to a large 2011 national survey, 45 percent of for-profit employees witnessed misconduct at work but that number compares with 49 percent in 2009 and 55 percent in 2007.

### I. Why Do Some Managers Cheat?

#### A. Moral Development

Psychologist Lawrence Kohlberg built and empirically tested a comprehensive theory of moral development in which he claimed that moral judgment evolves and improves primarily as a function of age and education.

Kohlberg, via interviews with children as they aged, was able to identify moral development as movement through distinct stages, with the later stages being improvements on the earlier ones. Kohlberg identified six universal stages grouped into three levels:

- **Preconventional level:**
  - Stage 1: Obey rules to avoid punishment.
  - Stage 2: Follow rules only if it is in own interest, but let others do the same. Conform to secure rewards.
- **Conventional level:**
  - Stage 3: Conform to meet the expectations of others. Please others. Adhere to stereotypical images.
  - Stage 4: Doing right is one's duty. Obey the law. Uphold the social order.
- **Postconventional or principled level:**
  - Stage 5: Current laws and values are relative. Laws and duty are obeyed on rational calculations to serve the greatest number.
  - Stage 6: Follow self-chosen universal ethical principles. In the event of conflicts, principles override laws.

Kohlberg found that many adults never pass beyond Level 2. Consequently, if Kohlberg was correct, many managers may behave unethically simply because they have not reached the upper stages of moral maturity. Although many critics remain, the evidence, in sum, supports Kohlberg's general proposition. [For a link to an overview of moral development and moral education, see [http://www.davidsongifted.org/db/Resources\\_id\\_11335.aspx](http://www.davidsongifted.org/db/Resources_id_11335.aspx).]

#### Feminine Voice

Kohlberg colleague Carol Gilligan contends that people's conceptions of morality are, in substantial part, gender-based. She claims that men typically approach morality as a function of justice, impartiality, and rights (the ethic of justice), whereas women are more likely to build a morality based on care, support, and responsiveness (the ethic of care). Men, she says, tend to take an impersonal, universal view of morality as contrasted with the feminine "voice" that rises

more commonly from relationships and concern for the specific needs of others. Gilligan criticizes Kohlberg because his highest stages, 5 and 6, are structured in terms of the male approach to morality while the feminine voice falls at stage 3.

### **B. Reason or Emotion?**

Kohlberg and Gilligan (and most moral philosophers) take the position that moral decision making is the controlled product of analysis, deliberation and experience. In recent years, however, new psychological and neuroscience evidence has supported an alternative theory of morality that involves decision making by emotion or intuition. The emotion/intuition approach claims that moral decision making is an automatic, nonreflective process in which an individual mind, when confronted with a moral question, instantaneously generate feelings of approval or disapproval. Brain-scanning experiments have provided support for the automatic emotion/intuition hypothesis.

### **C. Moral Identity?**

Early evidence suggests that a critical feature in total moral development, including the will to act, involves what is labeled *moral identity*. In general, moral identity involves the degree to which moral concerns are central to one's sense of self. As Professor Sam Hardy explains it, a person might have a stronger sense of moral identity if that identity is centered more on moral virtue than on amoral virtues such as creativity.

### **D. Organizational Forces**

Individual character influences corporate misconduct, but organizational culture is also important. Unfortunately, only 10 percent of American companies demonstrate the characteristics that are associated with a "strong ethical culture," according to a 2007 Ethics Resource Center study. [For the Business Roundtable Institute for Corporate Ethics, see <http://www.corporate-ethics.org/>]

### **E. The Boss**

Top corporate bosses have hit a particularly rough patch in American life. Many have been disgraced by various scandals, and a number of them are in jail. Wall Street executives are accused of bringing the economy to near collapse while continuing to collect big bonuses. Although business leaders often blame these trust woes on a "few bad apples," the 2013 Edelman Trust Barometer (a survey of 26,000 people in 26 countries) found that only 18 percent of respondents "would trust a business leader to tell the truth in a complex situation." [For a film treatment of ethical issues in the business community, see the trailer *Wall Street: Money Never Sleeps*.]

#### ***Bill Hawkins: A Tough Decision***

Bill Hawkins, CEO at Medtronic (\$14.6 billion, Minneapolis-based medical device maker), faced a critical ethical decision-making moment in 2007 when he learned that Medtronic's Sprint Fidelis leads might have been malfunctioning at an unacceptably high rate.

The leads had been on the market for about 38 months and 268,000 had been implanted. The day the recall was announced, Medtronic had its worst day on the stock market in 23 years with a 12 percent decline and its market share in the category fell from 51 to 47 percent. Within two years, however, Medtronic had largely recovered from the episode, a software package had been



developed that would alert patients that a lead might be fracturing, and a favorable U.S. Supreme Court decision was offering Medtronic substantial shelter from lawsuits.

### ***Bank Robber to Boardroom***

Some bosses go wrong but correct their lives—none more dramatically than James Joseph Minder, 74-year-old former chairman of Smith & Wesson Holding Corp. In his twenties, Minder was the notorious “Shotgun Bandit” of Michigan. He served time in prison and was free of trouble after 1965. After retiring in the 1990s, Minder got involved in the gun industry and eventually became chairman of handgun manufacturer, Smith & Wesson. Then in 2004 a reporter came to his home asking about his past. At first he denied he was the “Bandit,” but he reconsidered and decided, “I had better tell the truth.” He later told the other members of the Smith & Wesson board, and resigned as chairman.

## **Part Four—Business Ethics in Practice**

### **I. Introduction: Corporate/White-Collar Crime**

Forty-five percent of U.S. respondents to Pricewaterhouse-Coopers’ (PwC) 2011 economic crime survey reported that their organization had suffered fraud in the previous 12 months. The U.S. government struggles to curb corporate crime, but in 2012, corporate payments to the government to settle fraud charges reached a record total of about \$8 billion. The task of linking particular people to instances of wrongdoing can be extremely difficult and expensive. Because of those difficulties and expenses, the government has recently turned with frequency to what are called “deferred prosecution” or “nonprosecution” agreements with corporations and individuals.

### ***Is Theft Sometimes OK?***

A shopper wrote a letter to the editor explaining how he felt after observing what appeared to be a theft:

[A]t Wal-Mart I saw a person try to put an item in their jacket. At first I thought this person was a jerk...But after I returned home, I became convinced that it was OK to steal...When I compare the theft of a \$15 item to the grand larceny by corporate America, which ran Enron into the ground, which reaps record oil profits,...which occupies the seats of go vernment and takes bribes, I now see the act of stealing a small gift...as heroic.

### **A. Prevention or Enhanced Punishment**

Responding to public outrage over Enron, WorldCom, and other stunning and destructive corporate scandals, Congress and the president approved the 2002 Sarbanes-Oxley Act (SOX) to attack corporate crime by publicly traded companies. Among its provisions, the bill establishes an independent board to oversee the accounting profession, requires corporate executives to personally certify the accuracy of their financial reports, and so on.

SOX is often criticized as a drain on company resources and an impediment to economic growth, but most organizations seem to have settled in to the SOX requirements and often praise its effects. A 2009 Securities and Exchange Commission study concluded that the benefits of SOX

exceeded its costs. Worrisome, perhaps, is the apparent underutilization of SOX in response to the financial crisis as reported by *The Wall Street Journal* in 2012.

## **B. Sentencing**

Federal sentencing guidelines, issues by the U.S. Sentencing Commission, provide ranges within which judges are advised to impose sentences. The guidelines are designed to provide greater predictability and consistency in punishment. However, recent Supreme Court decisions have diminished the power of the guidelines by significantly restoring federal judges' authority to deviate from them.

### ***Too Lenient?***

Federal judge Sandra Beckwith in Ohio stretched sentencing latitude to the maximum in her 2011 sentencing of Michael E. Peppel, former chair and CEO of technology firm MCSi. Peppel pleaded guilty to fraud resulting in estimated damages of \$18 million. The sentencing guidelines called for 8 to 10 years of incarceration, but the judge handed down a sentence of seven days in jail and three years of supervised release. On appeal, however, the Sixth Circuit ruled that Judge Beckwith had abused her discretion. Following the appeals decision, Judge Beckwith sentenced Peppel to two years in prison, three years of court supervision, and a \$5 million fine.

## **II. Global Bribery**

In many cultures, the payment of bribes—*baksheesh* (Middle East), *huilu* (China), *vzyatku* (Russia), *mordida* (South America), or *dash* (Africa)—is accepted as a necessary and, in some cases, a lawful way of doing business. The Foreign Corrupt Practices Act (FCPA), the chief federal weapon against bribery abroad, was enacted in 1977 in response to disclosure of widespread bribery by American firms. In brief, the FCPA provides that U.S. nationals and businesses acting anywhere in the world, foreign nationals and companies acting in U.S. territory, and foreign companies listed on a U.S. stock exchange are engaging in criminal conduct if they offer or provide money or anything of value to foreign government officials to obtain or retain business or otherwise secure “any improper advantage.” [For a summary of the FCPA, see <http://www.fcpaenforcement.com/explained/explained.asp>.]

### **A. Controversy**

The FCPA has been controversial from the outset. Some businesspeople see it as a blessing both because it is an honorable attempt at a firm moral stance and because it is often useful for an American businessperson abroad to say, “No, our laws forbid me from doing that.” On the other hand, some consider the act damaging to competitiveness. The United States also participates in several other anticorruption initiatives including the U.N. Convention against Corruption, the OECD Anti-Bribery Convention, and the Inter-American Convention. [For details on the OECD Anti-Bribery Convention, see <http://www.oecd.org>]

### **United States Corruption**

Total corporate sanctions under the FCPA reached a record \$1.7 billion in 2011. The United States ranked only 19th in Transparency International's 2012 Corruption Perceptions Index, which aggregates data provided by experts and business leaders to assess the perceived level

of public sector corruption around the globe. The countries perceived to be least corrupt were Denmark, New Zealand, and Finland.

### **B. Bribery in Daily Life**

Bribery appears to be a routine cost of living in some countries. Russian think tank INDEM estimates that, on average, Russian businesses spend 7 percent of their budgets on bribes. Interestingly, Russia has recently strengthened its antibribery laws. China executed the former head of its food and drug agency in 2007 for allegedly accepting \$850,000 in bribes from Chinese pharmaceutical companies, but bribery continues to be a routine feature of business practice in China. The World Bank estimates that bribes to government officials globally total \$1 trillion annually

#### **Practicing Ethics: Bribe the Terrorists?**

Banadex, a subsidiary of Cincinnati-based Chiquita Brands International, paid bribes to Colombian rebels over a period of years, including \$1.7 million from 1997 to 2004 to the AUC (Autodefensas Unidas de Colombia), a right-wing Colombian terrorist group. Chiquita, one of the world's leading banana producers with operations in 70 nations, learned of the payments in 2000, but allowed them to continue. Reliable reports indicated that thousands of people had been killed, tortured, raped, or "disappeared" by the AUC (now disbanded).

In 2007, Chiquita entered a guilty plea to the felony of engaging in transactions with terrorists. A federal judge sentenced Chiquita to \$25 million in fines and five years probation. During the period of Chiquita payments to AUC, some 4,000 Colombians were killed in the banana-growing region of Colombia. Colombian officials argue that Chiquita was not a victim of extortion and that the company knew AUC was using the bribery proceeds to attack peasants, union workers, and various rival groups.

### **III. Whistle Blowing**

Many federal statutes include whistle blower provisions and the federal False Claims Act rewards those who help stop fraud involving government contracts. Whistle blowers typically are entitled to 10 to 30 percent of the recovery from the wrongdoer. Whistle blowing appears to be on the rise following the passage of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act which includes a cash reward for those whose information regarding federal securities law violations leads to a recovery exceeding \$1 million. The Securities and Exchange Commission received about 3,000 tips in the first year of the program. [For an overview of whistle blower activity and protections, see <http://www.whistleblowers.org> and for a law firm dedicated to representing whistle blowers as well as their stories, see <http://www.phillipsandcohen.com>.]

#### **A. Retaliation**

Despite expanded legal protection, whistle-blowers often pay a high price for exercising their consciences. Americans have long deplored "squealing," and tend to ignore violations, partly out of fear of retribution. A recent survey found that 73 percent of full-time American employees observed wrongdoing on the job, but only about 36 percent of those employees actually reported that wrongdoing to bosses. Dodd-Frank expressly forbids discharge, demotion, and other forms of

retribution against securities law whistle-blowers; other federal laws, such as Sarbanes-Oxley, provide varying degrees of protection in some other areas of enforcement.

#### **IV. Ethics Codes**

Most big companies have voluntarily developed ethics codes; some providing rather detailed “dos and don’ts” about employee conduct and others consisting of more generalized statements of principles. Section 406 of Sarbanes-Oxley—specifically requires publicly traded companies to adopt a code of ethics for senior financial officers or to explain why they have not done so. [For the Ethics Officers Association, see <http://www.eoa.org>.]

Responding to SOX and other pressures, an increasing number of companies have prepared more detailed codes, displayed them more prominently, required employees to read and sign the codes, and created training methods to more firmly integrate ethical expectations into company decision making. [For the Ethics Resource Center, see <http://www.ethics.org/>.]

Companies that maintained high-quality codes of conduct were found to rank highly in corporate citizenship, sustainability, ethical behavior, and public perception of the firm. [For information on global corporate governance and citizenship, see <http://www.conference-board.org>.]

#### ***Assuring an Ethical Culture at Raytheon***

Jay Stephens, general counsel, and Patti Ellis, vice president for business ethics and compliance, at defense contractor Raytheon, outlined some strategies for building an ethical commitment throughout a complex organization, which are as follows—aim high, keep learning, discuss, keep it real, and step back.

### **Internet Exercise and Supplements**

#### **Answers to Internet Exercise (p. 81)**

1.
  - a. Their answer: Like Socrates, most psychologists would agree that ethics can be taught. Research has found that “dramatic changes occur in young adults in their 20s and 30s” with regard to the problem-solving strategies they use to deal with ethical issues; that the extent of the change correlates with the number of years of formal education; and that deliberate educational curricula can influence the awareness of moral issues and the judgment process. See <http://www.scu.edu/ethics/practicing/decision/canethicsbetaught.html>.
  - b. The students could have a discussion based on this question.

#### **Student Project**

Locate a website that in some fashion discusses business ethics or raises an ethical issue in a business context. For example, the students could find a news article about a particular business or industry that is facing some ethical challenge; or they could find some article that discusses business ethics or some aspect of business or corporate ethics or responsibilities; or they might find the home page of some business that they think illustrates some ethical value (either positively or negatively).

Explain the ethical issue raised. Provide ethical arguments for resolving it in at least two different ways.

### Supplemental Web Addresses

<http://www.scu.edu/Ethics> (Markkula Center for Applied Ethics, Santa Clara University)

<http://www.singerpubs.com/ethikos> (ethikos and Corporate Conduct Quarterly)

<http://onlineethics.org> (Ethics Center for Engineering and Science)

### Answers

#### Answer to ‘Practicing Ethics: Baseball Bats Encourage Subprime Loan Approvals’ Question (p. 51)

1. The students could have a discussion based on this question. See ethics data later in chapter, particularly “Organizational Forces” data relating to pressure to cheat and workplace misconduct.

#### Answers to ‘A Conscience at Goldman Sachs?’ Questions (p. 53)

1. He meant that he wanted Goldman Sachs to do things the right way. Making his criticism of the firm public was the only way he thought he could bring about a change in the company’s culture. Susanne Craig and Landon Thomas Jr., “Public Rebuke of Culture at Goldman Opens Debate,” *The New York Times*, March 14, 2012 [<http://dealbook.nytimes.com/>]
2.
  - a. Smith was once proud of Goldman Sachs’s culture of teamwork, integrity, humility, and concern for clients, but that spirit, he said, had been lost.
  - b. & c. Students’ answers will vary.
3.
  - a. Students’ answers will vary.
  - b. Students’ answers will vary. One Goldman client told *The New York Times* that the company had traded against its clients for years. “Come on, that is what they do and they are good traders, so I do business with them.” And a *Bloomberg* editorial satirized Smith’s view that the firm was too concerned about making money:  
“If you want to dedicate your life to serving humanity, do not go to work for Goldman Sachs. That’s not its function, and it never will be. Go to work for Goldman Sachs if you wish to work hard and get paid more than you deserve even so...”

#### Answers to ‘Ethics Survey’ Questions (p. 54)

- 1, 2, 3, & 4. Students’ answers will vary.

#### Answers to ‘College Students’ Questions (p. 56)

1. Students' opinions will vary.
2. A study built upon a small sample of 230 upper division undergraduate business students found that those going to church more frequently were less likely to cheat while those going to church less frequently were more likely to do so. Taking a course in business ethics had no influence on cheating behavior for the total sample of students. Students who were not highly religious were less likely to cheat if they had taken a business ethics course. And among highly intelligent students, cheating was significantly reduced if the students had taken a business ethics course. Likewise, highly intelligent students who were also highly religious were less likely to cheat.
3. Prentice cited research by Jonathan Haidt finding that people who strive primarily for wealth and achievement are less happy, on average, than those who focus on relationships, intimacy, spirituality, and leaving a legacy to society. Prentice cited other studies demonstrating that those who act ethically tend to be happier than those who do not. Prentice also cites work by Richard Layard indicating that those with a strong moral sense tend to be more prosperous than others.

### **Answers to 'Changing Values?' Questions (p. 57)**

1. Students' opinions will vary.
2. Sara Konrath and Edward O'Brien, primary authors of the empathy study, speculated that the reasons for declining college student empathy might include the following:
  - Increased exposure to media and violent video games, which numbs one to the pain of others.
  - Social media may allow students to connect easily with friends and tune out when they don't feel like responding to others' needs.
  - The hypercompetitive atmosphere and celebrity reality shows may increase attention to the self and decrease attention to the needs of others.

### **Answers to Too Little Studying = Cheating? Questions (p. 57)**

1. Students' answers will vary. "Business education has come to be defined in the minds of students as a place for developing elite social networks and getting access to corporate recruiters," says Rakesh Khurana, a professor at Harvard Business School. This could be a reason why business majors apparently study less, on average, than students in other majors. Also, there is no consensus about what has to be learnt and how students should learn it, especially in marketing and management. [<http://chronicle.com/article/Business-Education-Not-Always/127108/>]
2. Students may say that it is because of the focus on group work, which may result in weakening of the kind of skills that a test measures. Also, a common problem with group work is that some people end up doing all the work while others do not do any work. [<http://chronicle.com/article/Business-Education-Not-Always/127108/>]
3. Students' answers will vary. Some may say that cheating in business schools would reduce if they studied more. That is, if students did not just look at the course as instrumental to getting themselves a job. Jerry M. Kopf, a management professor at Radford says "There are too many other things competing for their time. The frequency and quantity of drinking keeps getting higher. We have issues with depression. Getting students alert and motivated—even getting them to

class, to be honest with you—it's a challenge." [<http://chronicle.com/article/Business-Education-Not-Always/127108/>]

4. Students' opinions will vary.

### Answers to 'Spirituality at Work' Questions (p. 59)

1. *The Wall Street Journal* reports that an increasing number of schools are offering courses addressing spirituality and self-fulfillment in the workplace. Scholars claim people are yearning to lead more "integrated" lives, and that they want to pursue jobs that express their personal values and make contributions to society. Columbia and Stanford are among the schools giving attention to workplace spirituality. See Ronald Alsop, "M.B.A. Track/Focus on Academics, Careers and other B-School Trends," *The Wall Street Journal*, January 11, 2005, p. B6.
2. As seen in a 2007 Pew survey, throughout much of Africa, Asia, and the Middle East, large majorities feel that faith in God is a necessary foundation for morality and good values, while in the relatively wealthy and secular nations of Western Europe, the majority belief is that morality is possible without religious faith. Source: The Pew Global Attitudes Project (Thursday, October 4, 2007) Sources: The Gallup Poll, May 2–4, 2004 and Rob Moll, "Outer Office, Inner Life," *The Wall Street Journal*, January 19, 2010 [<http://online.wsj.com/>].
3. Students' opinions will vary. Some of them may say that corporations should be excused on religious grounds from providing contraception coverage as some methods results in abortion as they take effect after fertilization. Other students may say that the law should be the same for all. Source: Dan Roberts and Amanda Holpuch, "Hobby Lobby ruling: firms can refuse to provide contraception coverage," *The Guardian*, June 30, 2014. [<http://www.theguardian.com/law/2014/jun/30/supreme-court-employers-religious-objections-contraception>]

### Answers to 'Deontology' Questions (p. 61)

1. Austry did what he "felt was right" suggesting that he was moved by principle; a deontological position.
2.
  - a. Jones was arguing from a teleological point of view. Jones asked that the theft be directed to large, national businesses in the knowledge that the costs would be passed on to all other shoppers in the form of higher prices.
  - b. Students' answers will vary. Rushworth Kidder decried what he described as the outcome-based, consequentialist nature of Jones' advice. Clearly, poor families' lives would be immensely improved if they did as Jones suggested. Kidder says Jones' advice "skates perilously close to the moral bankruptcy of 'the end justifies the means.'" Thus, if outcomes alone determine ethical propriety, "any bad policy is acceptable if only it can be seen to benefit the poor."

Kidder went on to say that most people, however, approach cases like this one from a Kantian/deontological perspective; trying to obey a principle "we'd like everyone in the world

to obey.”

Beyond the consequentialist and deontological perspectives, Kidder went on to raise a third ethic—the care-based principle of the Golden Rule. Kidder asked about the harm of shoplifting to the thieves themselves: “How does it degrade their self-respect, harden their sentiments, and increase their distrust of others?”

Source: Rushworth Kidder, “Go Forth and...Shoplift? *Ethics Newsline*, January 4, 2010 [<http://www.gloablethics.org/newsline>].

3.
  - a. The advertisement is an example of consequentialist thinking.
  - b & c. Students' opinions will vary.

### **Answers to ‘Are Layoffs Unethical? Case One—Toyota’ Questions (p. 63)**

- 1, 2, 3, & 4. Students' opinions will vary.

### **Answers to ‘Are Layoffs Unethical? Case Two (Part I)—Aaron Feuerstein and Malden Mills’ Questions (p. 64)**

1.
  - a. Feuerstein was employing formalist reasoning. He was acting without regard to consequences, but based on a value (rule) that he felt was imperative.
  - b. The students could have a discussion based on this question.
2.
  - a. Clearly, utilitarian reasoning based on ultimate consequences of the decision.
  - b. The students could have a discussion based on this question. This statement of the bishops could be viewed both as a fast rule (support the dignity of each human person) and, therefore, a formalistic statement or as focused on the results of an action (in fact supporting the dignity of each human person) and, therefore, a utilitarian statement. Then the issue is whether Useem’s rationale violates both of these concepts.
3. The students could have a discussion based on this question. Owners of closely-held companies have the power to be capricious and unkind, as history amply reveals.

### **Answers to ‘Are Layoffs Unethical? Case Two (Part 2)—Aaron Feuerstein, Malden Mills, and Bankruptcy’ Questions (p. 64)**

1.
  - a. Certainly some layoffs may be defended on free market grounds. That is, greater efficiency means, among other things, that some jobs will be saved that might otherwise be lost and more jobs might be added. Over the long term, greater efficiency will mean benefits for all in the form of better products/services and lower prices. So it is hard to see how a universal, formalistic rule could be applied, without considerable government oversight and regulation. On the other hand, perhaps the decision should not always be left to business decision



makers.

- b. The students could have a discussion based on this question.
2. The reading points out that poor business decisions may have also played a role, e.g., the arguable overbuilding after the fire. Certainly, protecting his employees had a financial cost and, as such, contributed to later financial difficulties. Moreover, framing the question in an either-or fashion “limits our ability to effectively address deeper issues. ... How do we best serve our customers? How, long term, do we maintain a viable business that contributes to the community?” Barbara Ley Toffler, “Malden Mills’ Owner Lacked the Vision Thing,” *Newsday*, December 17, 2001, p. A24.
3. It is perhaps worth pointing out to students that Feuerstein did not in fact protect his workers “at all costs.” Even in the original story, about 400 workers had not been returned to work. Prior to the bankruptcy, the business was down to 1,200 employees. Thus, it might be questioned whether Feuerstein was really applying a deontological approach at all.
4. The students could have a discussion based on this question. They may have more quickly retooled or moved for other opportunities, instead of remaining with the mill. The economy was more robust in December, 1995 at the time of the fire than in November, 2001 when the bankruptcy was filed.
5. The students could have a discussion based on this question. One might profitably turn the question around for students’ consideration: Do the students have an obligation to boycott a business for decisions they make that they find ethically unsupportable?

### **Answers to ‘Corporate Ethical Climate’ Questions (p. 66)**

1. Both legally and morally, people would generally be disinclined to attach blame unless they could show the local owners somehow helped to cause the spill or were somehow so negligent in their behavior that they should have realized the consequences. No such facts have appeared.
2. The boycott may be defensible as one means of encouraging changes in BP behavior. The boycott has the disadvantage of most directly harming the innocent people at the local stations. But the boycott is perhaps more justifiable in this case given BP’s lengthy history of tragedies and apparent misconduct. Perhaps students would be interested in knowing the extent to which local owners have pressured BP to mend its ways.
3. Students’ opinions will vary. Some of them may say that BP had not revealed how bad the situation really was. Taking into account the number of people who were affected by it and the irresponsibility of BP they may opine that the scale of the disaster was too large to be forgotten. <http://grist.org/business-technology/what-bp-doesnt-want-you-to-know-about-the-2010-gulf-of-mexico-spill/>

### **Answers to ‘Bill Hawkins: A Tough Decision’ Questions (p. 71)**

1. Of course, many issues would have been considered. Hawkins mentioned: the company culture, the balancing of the various costs and benefits including the risk of removing already implanted

devices, the fact that all medical devices carry risks, the ambiguous data, the product was extending people's lives, the FDA had never told Medtronic to remove the product (not included in the textbook account of the story), the company's assessment of its own responsibilities, the fact that some of his own family members had benefited from Medtronic products (not included in the textbook account of the Sprint Fidelis decision), and—presumably—his own career considerations (not mentioned in Hawkins' account).

2. Ethicist Chris MacDonald said the decision clearly was not easy. MacDonald pointed to the ambiguous failure data that made the Sprint Fidelis situation one of uncertainty; that is, not a clear case of a product killing people. The uncertain statistical findings meant that the Sprint Fidelis might have been just as safe as the older leads. Taking the leads off the market prematurely might have encouraged physicians to remove defibrillators, a very risky procedure. In any case, MacDonald noted that no health product is 100 percent safe and effective. See Chris MacDonald, "Can Life-Saving Decisions Really Be 'Tough Calls'?" *The Business Ethics Blog*, October 15, 2009 [<http://www.businessethics.ca/blog/>].

### Answers to Questions—Part Three (p. 71)

1.
  - a. According to one survey, 46% of those polled said it was very important to have heroes in our lives, while 40% said it was somewhat important. Karlyn Bowman, "Vanishing Heroes?" *The American Enterprise*, September 2000, p. 60.
  - b. In the same survey, 64% said there are fewer heroes today than in the past. *Id.*
  - c. The students could have a discussion based on this question.
2.
  - a. The students could have a discussion based on this question.
  - b. Dan Gainor, director of the Business & Media Institute and the cited study's author, says he finds the shows very entertaining, but that the plots have a pernicious effect on how businesspersons are perceived. Source: Editorial, "TV's Killer Capitalists," *The Wall Street Journal*, July 14, 2006, p. W9.
3. The students could have a discussion based on this question.
4. 89% of respondents said they would not flirt with their boss or someone else who could help them get a promotion, 10% said they might, and only 1% responded that they would do it. Money Magazine ethicists said that flirting is neither criminal nor unethical. Neither is trying to appear as attractive as possible to the person making the big decision. However, encouraging the person to believe that your interest is more than playful and that you might be sexually available to them, and "then you've crossed over to the dark side." Source: "Money and Ethics: How you Stack Up," (January 23, 2008)]
5.
  - a, b, & c. Students' opinions will vary.

- d. His reasoning appears to be largely formalist. "I wasn't earning my money." "It just wasn't the right thing to do." He seems to be relying on principled reasoning rather than assessing the greatest good for the greatest number. At the same time, Meche has said that he wants to spend more time in his boyhood home and with his friends and family. And he has mentioned the struggle of playing hurt, of trying to summon enthusiasm, and of struggling through his throwing program.
- 6.
- a, b, & c. Students' opinions will vary.

### **Answers to 'Is Theft Sometimes OK?' Questions (p. 74)**

1. Perhaps he meant that the thief was taking a small measure of retribution against the corporate giants that, according to the letter writer, abuse Americans.
2. The students could have a discussion based on this question. Justice seems to require going after the big wrongdoers in American life, but the hurdles are quite substantial. Corporate fraud is difficult to discover and to prove. Investigations and prosecutions are extremely expensive. Very aggressive pursuit of white collar crime may cause major economic bumps, including job losses.

### **Answer to 'Too Lenient' Question (p. 75)**

1. Students' answers will vary. Beckwith said the following about her decision:  
"I see it to be wasteful for the government to spend taxpayers' money to incarcerate someone that has the ability to create so much for this country and economy."

### **Answers to 'Practicing Ethics: Bribe the Terrorists?' Questions (p. 79)**

1. Chiquita's general counsel claimed that the bribes were morally proper to save lives. Originally, the payments had been lawful, and Chiquita argued they were not voluntary and were a response to extortion. Prosecutors said that Chiquita could have promptly left Colombia, but made a business decision to stay. Colombian officials point to Chiquita's alleged role in arms smuggling and say that the company was not facing extortion at all. Rather, they say the company knew that AUC was directing its violence at its various rivals, including union workers. Business wanted low-wage labor in Colombia, and AUC regarded union organizers as left-wing guerrillas hoping to overthrow the government.

[Law.com](#) asked experts about how the episode should have been handled:

As for handling the payments to the AUC: Robert Litt, says his client [former Chiquita general counsel Robert Olson] acted appropriately. "If your child is kidnapped by terrorists who demand money to return your child, will you pay it. I think yes, you would. I would...there was no other way to protect [Chiquita's] people."

Professor Deobrah Rhode, head of Stanford Law School's Keck Center on Legal Ethics and the Legal Profession and founding director of Stanford's Center on Ethics, doesn't condone what Chiquita did, but she acknowledges that Olson was faced with a difficult decision. "This is a really hard place for a general counsel who wants to do the right thing," Rhode says. Yet Rhode believes Chiquita's actions, however well-intentioned, were wrong because the AUC used the

money to buy weapons that killed innocent people.

She sees the Chiquita tale offering an important lesson for other companies struggling with moral dilemmas. People of integrity often feel entitled to respond in kind when they think someone else is doing wrong to their company or their employees, Rhode observes. But in the end, Rhode says, there is only one answer: Follow the law. You simply cannot establish a rule of law if multinational companies feel free to violate it when their own employees and interests are at stake, she concludes.

Source: Sue Reisinger, "Blood Money Paid by Chiquita Shows Company's Hard Choices," *Corporate Counsel*, November 26, 2007.

2. Prosecutors' particular concern was whether Chiquita executives had ignored the law in continuing to make payments for nearly a year after they had first reported the bribes. Prosecutors apparently were lenient, in part, because Chiquita volunteered critical information subsequent to the company's guilty plea. Apparently, national security considerations played a role in the deliberations in that concerns were expressed about instability in the region if Chiquita withdrew. Further, the Bush Administration may have been conflicted since it had condemned all terrorist activities, but did not want to undermine a newly-elected, friendly Colombian government. All of the facts about government deliberations over the Chiquita case are not publicly available at this writing.

### **Answers to 'Retaliation' Questions (p. 80)**

1. The students could have a discussion based on this question.
2. The students could have a discussion based on this question.

### **Answer to 'Assuring an Ethical Culture at Raytheon' Questions (p. 81)**

1. Students' opinions will vary. Some of them may say that ethics training is likely to have a significant impact on managerial and corporate misconduct because it trains them to welcome bad news, to step back and think about things, and so on.
2. Students' answers will vary. Some of them may say that companies with reputations for high ethical quality would have an edge in recruiting employees because people may feel more comfortable approaching and working in such a company. This may add to their sense of security.

### **Answers to Chapter Questions (p. 81)**

1. Mary could find other ways to help the high school find the necessary funds. Are there other corporate sponsors or community funds available? Could she plan a school fund-raiser, or help the school apply for a government grant? Alternatively, Mary could seek out other sales prospects or ask other customers to increase their orders. The donation scheme is difficult as the cash gift would likely be used for basic necessities like textbooks. The school likely has an internal purchase approval system to detect kickbacks as well. What would Mary's colleagues think? What if everyone did this? Will Lincoln and other similarly treated customers come to expect this—and what will the impact of that expectation be? Further, Mary is under a moral obligation to

act in the interests of those who depend on her. The “real Mary” decided not to offer Lincoln High School a donation. She knew that her manager and other supervisors would object. She didn’t get her bonus. However, her reputation as a hard worker with integrity under pressure led to a promotion and higher pay. Source: Shel Horowitz, “Should Mary Buy Her Own Bonus?” *Business Ethics*, January 23, 2008.

2.
  - a. The students could have a discussion based on this question.
  - b. Students’ answers may vary. Some of them may agree with their conclusion. Twenge says that the blame should be placed on American parents who say that every child is “special,” and also self-worth is considered to be a prerequisite for success rather than result from it. Source: Douglas Quenqua, “Seeing Narcissists Everywhere,” *The New York Times*, August 5, 2013. [<http://www.nytimes.com/2013/08/06/science/seeing-narcissists-everywhere.html?pagewanted=all>]
3.
  - a. A survey of nearly 3,000 undergraduate business students from 58 universities and colleges in 32 states was conducted. It was regarding certain general ethics-related attitudes and the degree of “ethicality” these students possess. The following were the conclusions generally reported in the literature: female survey participants are slightly but significantly more ethically inclined than male survey participants. Source: “Ethical Attitudes of Future Business Leaders: Do They Vary by Gender and Religiosity?” *Business & Society*, Vol. 45, No. 3 September 2006 (Sage Publications) pp. 300-321.
  - b. In the same survey, participants who report being very religious are slightly but significantly more ethically inclined than survey participants who are less religious.
4.
  - a. The students could have a discussion based on this question.
  - b. The students could have a discussion based on this question. Bok argues that unmarked patrol cars fall into the only category of moral lies, that is, those approved in advance by the general public.
  - c. The students could have a discussion based on this question.
5. The students could have a discussion based on this question.
6.
  - a & b. Yes. Other factors most often mentioned were productivity, achievement, and life expectancy. But there was general agreement that ability to pay afforded the only workable standard, as well as a rough measure of productivity and achievement.
  - c. A consensus approved testing without informed consent on persons was judged to be “unproductive” or “undesirable.”
  - d. The average human life is worth \$28,000.

7. The students could have a discussion based on this question.
8. The students could have a discussion about the ethical responsibilities of the pharmacist:
  - To protect customers
  - To allow customers freedom of choice
  - To enhance the return on owners' investments
9. The executive response was as follows:
  - Yes—17 (33%)
  - No—34 (67%)
10.
  - a. In one survey, about 60% of employees and executives said they believe taking office supplies home for personal use is unethical; less than half considered sending personal e-mails from their desk to be unethical. Walker Information, Inc., "Ethical Issues in the Employer-Employee Relationship," March 2000.
  - b. In the same survey, 40% of employees believed their employers are committing a serious ethics breach when they monitor their e-mails; only 33% of their employers agreed. *Id.*
11.
  - a. According to one commentator, what it means is that "we are a nation of lascivious hypocrites... [T]he TV ratings show that we are choosing the equivalent of fast-food entertainment over quality programming. Sex and violence sell well everywhere; high culture does not. So the entertainment titans keep dishing up more of the same." Robert Scheer, "The Invisible Hand Holds the Remote," *Los Angeles Times*, November 30, 2004, p. B13.
  - b. "The real engine at work here, for better or worse, is the profit motive. If this patently obvious point is absent from the complaints of social conservatives, it is because the truth of the matter is inconvenient to their agenda. It's much easier for them to politicize the moral decay of our culture than to admit that its wellspring is the domination of media corporations, along with the rampant consumerism that has led us deep into personal debt. Let's face it: There's not much money to be made off children's piano recitals, songs sung around the campfire or performances by your local orchestra, but the choice to consume such fare is always there. So if you're upset with what's on the boob tube tonight, just ask yourself: What would Jesus watch? My guess is PBS." *Id.*
12. The students could have a discussion based on this question.
13. According to one survey, honesty and integrity ranked as the most critical quality in a job candidate. Stephanie Armour, "Companies rate honesty as best worker policy," *The Register*, May 4, 1997, p. 1G.
14.
  - a. Students' answers will vary. Cakic rejects the idea that drugs would give users an unfair advantage. He makes the point that unfair advantages come in many ways, including superior financial resources for some students.

- b. Students' answers will vary. Cakic says that the drugs are very attractive to students and virtually impossible to ban. He recommends studies to enhance the safety of drug use.

15–17. The students could have discussions based on these questions.

- 18. Several studies conclude that lying is commonplace in sales practice. A 1997 survey of sales managers found 49 percent of those managers reporting that their salespeople had lied on a sales call, 34 percent said their salespeople made unrealistic promises and 22 percent sold products the customers did not need. Approximately 50 percent of the sales and marketing executives surveyed in a 2002 study believed their salespeople had lied on sales calls. Source: John D. Hansen and Robert J. Riggle, "Ethical Salesperson Behavior in Sales Relationships," *Journal of Personal Selling & Sales Management* 24, no. 2 (Spring 2009), p. 151.

An SMM/Equation Research survey of 316 sales and marketing executives found 47 percent of managers suspecting their salespeople lie on sales calls and only 16.5 percent have never heard one of their sales representatives make an unrealistic promise to a customer. Source: Erin Strout, "To Tell the Truth," *Sales & Marketing Management* 154, no. 7 (2002), p. 1.

- 19. The students could have a discussion based on this question.

20.

- a. Philosopher James S. Fishkin, *The Limits of Obligation* (New Haven: Yale University Press, 1982) discusses the famine relief problem and explains the need for a "cutoff for heroism" such that we do not, for example, starve ourselves into the same condition as those we are trying to save. However, Fishkin notes philosopher Peter Singer's denial of that conclusion:

[Singer] argues that people are obligated to give until they reach the "level of marginal utility," i.e., the level at which a dollar sacrificed does as much harm to the individual as it does good for a starving Bengali refugee. On Singer's view, such sacrifices would not only be admirable, they are also morally *required* of us all. (p. 70)

- b. Students' opinions will vary.

## **Supplementary Materials**

### **I. Practicing Ethics: Deans' Quiz**

The Wall Street Journal reported the results of a scholarly survey of 291 business-school deans: Here's a pop quiz for business-school deans: Would you admit a clearly unqualified student to your school just because the candidate's family donated \$1 million? Forty-eight percent of the 291 deans... answered yes.

How would you respond to some of the other questions asked of the deans: (1) What if the potential student's father was just a friend and not a donor? (2) Would it be ethical for a dean to remove an honor code violation from a student's record in exchange for a \$1 million donation to the school? (3) Would it be ethical for a dean to personally accept a \$500,000 bequest that was meant for the school but was mistakenly willed to the dean?

**Answer:** 25.6% of the deans said they would admit the student if the father was just a friend and not a donor. 90% said they would refuse to remove an honor code violation from the student's record. 20% of the deans said it would be ethical for them to accept the \$500,000 bequest. Gordon Fairclough, "For Business-School Deans, Ethics Appear to Come in Shades of Green," *The Wall Street Journal*, August 10, 1998, p. A8.

## II. Practicing Ethics: Clean Up Accounting

### A Crusade to Clean Up Accounting

According to *The Chronicle of Higher Education*: "Lawrence A. Ponemon quit his first accounting job after just one year. A manager asked him to underreport his hours, he says, and when he wavered, his time sheet was fudged anyway."

Ponemon, now an accounting professor at the State University of New York at Binghamton, says that in his first auditing job with Deloitte Haskins & Sells (now Deloitte & Touche), he put in 88 hours, but reported only 41. "I was pressured to do that," he says "to the point where my senior auditor erased my time sheet hours." Ponemon says that underreporting is rampant because it makes accounting managers look efficient and it keeps clients happy by avoiding overtime charges. A spokesman for Deloitte & Touche said that underreporting "wasn't the norm then, and it isn't the norm now."

Assume you are in Ponemon's position as a beginning auditor and your boss instructs you to underreport your hours and says, "This makes us all look better. Nobody gets hurt." What would you do?

**Answer:** This episode is drawn from Ben Gose, "A Crusade to Clean Up Accounting," *The Chronicle of Higher Education*, Nov. 30, 1994, p. A8. Clearly, an employee should not violate company policy. However, Professor Lynn Paine Sharpe of the Harvard Business School reminds us: "Students aren't prepared for the difficulties with what appear to be simple ethics issues. It seems an easy matter to tell the truth, but sometimes actually doing it requires great capabilities. The stakes are so much higher than they've ever had to deal with." (Lori Tansey, "Right vs. Wrong," *National Business Employment Weekly*, Spring/Summer 1994, p. 11, 12.)

Presumably, it would be useful to discuss those stakes with students and help them identify the competing considerations. Remind them that pressure to cheat is not unusual. Tansey refers to a recent Ethics Resource Center survey of 4,000 employees, 30% of whom reported feeling "pressure to cheat" on the job and 30% of whom say they had personally observed conduct on the job in the past year that violated the law or company policy.

The reported incident occurred in one of the remaining Big Four accounting firms, all of which have been sued in recent years for professional malfeasance. In retrospect, it might seem that falsifying hours was just the tip of the iceberg that is now threatening the whole accounting profession. This incident may also be useful to bring to students' attention in conjunction with "The Boss" (text at p. 52).

## III. Practicing Ethics: Destroy All Girls

Galyan's Trading Co. is a Plainfield, Indiana subsidiary of The Limited, Inc. A Galyan's customer in



Minnesota complained when she saw a slogan on a Galyan's shirt saying, "Destroy all girls." How would you respond if you were the Galyan's CEO? The Associated Press details the company's decision:

A maker of in-line skating equipment thought it could attract aggressive young male buyers with a simple slogan: "Destroy all girls." An offended retailer came up with an equally forceful response—ending all sales.

Galyan's Trading Co. announced Monday it sent back the fall line of T-shirts, sweatshirts, pants, and boxer shorts made by Senate, a private company based in Huntington Beach, Calif. The slogan was carried on the apparel's laundry-instruction tags. Galyan's said it is also returning Senate's wheels, bearings, and other skating gear carried at its nine sporting goods stores in Indiana, Ohio, Minnesota, and Kansas. Senate said the slogan was not meant to be taken literally. "The tag was supposed to say, 'Kill your parents,' but some people thought that was too extreme. Go figure," said Arlo Eisenberg, one of the five partners who founded Senate three years ago.

In your opinion, was Galyan's making a principled decision, a practical decision or both? If the product were a video, book or compact disc with the same "destroy all girls" message, should the retailer remove it from the shelves?

**Answer:** The argument that it was a principled decision is that individuals and businesses should not sell items likely to be offensive or incite violence against segments of the population. The argument that it was a practical decision is that Galyan's did not take any action until a customer complained. Also significant may be the fact that Galyan's received considerable positive and free publicity for its actions. Does the product bearing the message matter? Associated Press, "Clothing Line wit 'Destroy All Girls,' Slogan on Tags Is Pulled by Retailer," *Waterloo-Cedar Falls Courier*, May 20, 1997, p. B6.

## IV. Practicing Ethics: Public Policy Issues

### Banker's Fetal Position

Tim Williams is using his skills and connections as a businessman to fight what he regards as a sin against God: abortion. The assistant vice president and trust investment officer at First National Bank of Dayton (Ohio) belongs to Financial Professionals for Life. The group of about fifty bankers, stockbrokers and insurance agents shares information about abortion and supports boycotts against companies that give to Planned Parenthood. "Basically, we want to carry the life ethic into our professional lives," said Williams. "The object of corporate charity is to create good will. Why make such a controversial gift? It's not doing the company or the shareholders any good."

Financial Professionals for Life has joined a long list of groups that oppose abortion, including Life Decisions International, which has spearheaded boycotts against corporate donors to Planned Parenthood. A number of corporations, including AT&T, have cut off support to Planned Parenthood when the issue was raised or boycotts threatened. "My wife is reminding me all the time which products we shouldn't buy or restaurants we shouldn't go to," said Williams, a father of four children with a fifth on the way.

Financial Professionals is now looking to target insurance companies that pay for abortions.

“Do you want to make a premium payment to an insurance carrier that pays for—and thereby encourages—abortion?” Williams asked. He added that insurance companies may have an economic reason to cover abortions because the medical costs are less expensive than carrying a baby to term. “They lose in the long run. The baby that gets aborted doesn’t get to buy insurance.” Williams said that the Dayton bank where he works does not contribute to Planned Parenthood, though some of his coworkers are pro-choice. “We agree to disagree,” he says. Jeffrey Zack, “Ethics in the News,” *Business and Society Review*, No. 83 (Fall 1992), p. 4. Reprinted with permission of the copyright holder, *Business and Society Review*.

Questions that can be explored with students include: In dealing with ethics-public policy questions such as abortion, should managers strictly divide their private and professional lives? Do you have an ethics-public policy cause to which you are so committed that you will practice it as an active part of your professional life? Should Williams be dismissed from his job if his anti-abortion activism hurts his employer? Should First National Bank of Dayton deal differently with Williams if he were, for example, a white supremacist or the leader of an anti-gay organization? Should Williams decline to do work for his employer where that work assists a company that he knows to be a contributor to Planned Parenthood?

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