

Chapter 02 - Business Ethics and Social Responsibility

OBJECTIVES

- LO 2-1 Define business ethics and social responsibility and examine their importance.
- LO 2-2 Detect some of the ethical issues that may arise in business.
- LO 2-3 Specify how businesses can promote ethical behavior.
- LO 2-4 Explain the four dimensions of social responsibility.
- LO 2-5 Debate an organization's social responsibilities to owners, employees, consumers, the environment, and the community.

KEY TERMS AND DEFINITIONS

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

LECTURE OUTLINE AND NOTES

PPT 2.4-2.5 **LO 2-1**

- I. Business Ethics and Social Responsibility
 - A. **Business ethics** refers to the principles and standards that determine acceptable conduct in business organizations.
 - 1. Personal ethics, on the other hand, relates to an individual's values, principles, and standards of conduct.
 - 2. Good ethics leads to trust, and in business, trust is the glue that holds the company-customer relationship together.

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- B. **Social responsibility** refers to a business's obligation to maximize its positive impact and minimize its negative impact on society.
- C. Ethics and social responsibility are often used interchangeably, but they do not mean the same thing:
 - 1. Business ethics refers to an individual's or work group's decisions that society evaluates as right or wrong.
 - 2. Social responsibility is a broader concept that concerns the impact of the entire business's activities on society.

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- D. The most basic ethical and social responsibility concerns have been codified by laws and regulations that encourage businesses to conform to society's standards, values, and attitudes.
 - 1. Most legal issues arise as choices that society deems unethical, irresponsible, or otherwise unacceptable.
 - 2. All actions deemed unethical are not necessarily illegal.
 - 3. Legal and ethical concerns change over time.
 - 4. Business ethics, social responsibility, and laws together act as a compliance system, requiring that businesses and employees act responsibly in society.
 - 5. Two laws having a major impact on business are the Sarbanes-Oxley Act and the Dodd-Frank Act.
 - a. The Sarbanes-Oxley Act criminalized securities fraud and stiffened penalties for corporate fraud.
 - b. The Dodd-Frank Act was passed to reform the financial industry and offer consumers protection against complex and/or deceptive financial products.

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- II. The Role of Ethics in Business
 - A. Well-publicized incidents of unethical and illegal activity strengthen the public's perceptions that ethical standards and the level of trust in business need to be raised.
 - 1. Charges of misconduct often start as ethical conflicts but evolve into legal disputes when cooperative conflict resolution cannot be accomplished.
 - B. Business ethics goes beyond legal issues, and ethical conduct builds trust among

individuals and in business relationships.

- C. Learning to recognize and resolve ethical issues is a key step in evaluating ethical decisions in business.

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LO 2-2

D. Recognizing Ethical Issues in Business

- 1. An **ethical issue** is an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical.
 - a. Many issues seem straightforward but in reality are quite complex.
 - 1) One example is **Bribes** (payments, gifts, or special favors intended to influence the outcome of a decision) are illegal in many countries, including the U.S. but in Japan, it is considered impolite *not* to bring gifts to a business meeting.
 - 2) Ethics is related to the culture in which a business operates, and bribes are common in other parts of the world
 - b. One of the principal causes of unethical behavior is overly aggressive financial or business objectives, but ethical issues involve all types of organizations including non-profits, government, schools, and universities.

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- 2. The National Business Ethics Survey found that workers witness many instances of ethical misconduct in their organizations.
- 3. Misuse of Company Time
 - a. Theft of time is the number one area of misconduct in the workplace.
 - b. It is widely believed that the average employees “steals” 4.5 hours per week with late arrivals, leaving early, long lunch breaks, inappropriate sick days, excessive socializing, and engaging in personal activities while on the job.
 - c. All of these activities add up to lost productivity and profits for the employer.
- 4. Abusive and Intimidating Behavior
 - a. Second most common kind of ethical problem for employees.
 - b. Involves anything from physical threats, false accusations, profanity, insults, yelling, harshness, and unreasonableness to ignoring someone or simply being annoying.
 - c. Difficult to assess and manage, especially in diverse workplaces where culture and lifestyles differ.
 - d. Bullying is associated with a hostile workplace when a person or group is targeted and threatened, harassed, or abused in some way.
- 5. Misuse of Company Resources
 - a. Identified as a leading issue of misconduct in the workplace.
 - b. Issues might include spending an excessive amount of time on personal e-mails, submitting personal expenses on company expense reports, or using the company copier for personal use.
 - c. Some companies have official policies regarding acceptable use of company resources.
- 6. Conflict of Interest
 - a. Conflicts of interest exist when a person must choose whether to advance his or her own personal interests or those of others.

- b. To avoid conflicts of interest, employees must be able to separate their personal financial interests from their business dealings.
- c. Insider trading—the buying or selling of stocks by an insider who possesses material that is not public—is an example of a conflict of interest.

PPT 2.14-2.15

E. Fairness and Honesty

- 1. Fairness and honesty are at the heart of business ethics and relate to the general values of decision makers.
- 2. Businesspeople are expected not only to obey the law, but also not to harm customers, employees, or competitors through deception, misrepresentation, coercion, or discrimination.
- 3. Employees must abide by the laws and regulations, cause no harm through dishonest behavior, and use company resources honestly.
- 4. Employees should be aware of policies and recognize how decisions relate to ethical behavior.
- 5. Fairness in competition is one aspect of fairness, which includes not bullying your competition.
 - a. Such was the case of Pool Corporation, the largest distributor of pool products, when it bullied pool manufacturers by threatening to refuse to distribute their products if they did business with competitors.
- 6. Communications
 - a. False and misleading advertising and deceptive selling tactics anger customers and can lead to business failure.
 - b. Truth about product safety and quality are also important to consumers.
 - c. Product labeling may raise ethical concerns and questions about basic rights of freedom of speech and expression.
- 7. Business relationships
 - a. Behavior of businesspersons toward customers, suppliers, and others in the workplace can generate ethical concerns, including
 - 1. Keeping company secrets
 - 2. Meeting obligations
 - 3. Avoiding pressure to act unethically
 - b. Managers can influence employee behavior and have the responsibility to create a positive work environment that helps the organization achieve its objectives and fulfill its responsibilities.
 - c. **Plagiarism** is widespread and means taking someone else's work and presenting it as your own.

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F. Making Decisions about Ethical Issues

- 1. It can be difficult to recognize ethical issues and may depend on the issue itself.
- 2. Managers tend to be more concerned about issues that affect those close to them or have immediate rather than long-term consequences.
- 3. Open discussion of ethical issues helps to promote trust and openness.

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LO 2-3

G. Improving Ethical Behavior in Business

- 1. Ethical decisions in an organization are influenced by three key factors:

- individual moral standards, the influence of managers and coworkers, and the opportunity to engage in misconduct.
2. Co-workers and superiors exert significant control over individual choices at work through authority and example.
 - a. If the company fails to provide good examples and standards and policies for appropriate conduct, conflict may develop and employees may base decisions on how their peers and superiors behave.
 3. Useful to examine causes of conflict because many organizational issues emerge from conflict (e.g. conflict between personal moral standards and organizational standards).
 4. **Codes of ethics** are formalized rules and standards that describe what a company expects of its employees.
 - a. Codes of ethics should provide guidelines and principles that can help employees achieve objectives and address risks in an acceptable and ethical way.
 - b. Codes of ethics, policies on ethics, and ethics training programs advance ethical behavior because they prescribe which activities are acceptable and which are not, and they limit the opportunity for misconduct by providing punishments for violations of standards and rules.
 5. Ethics programs should include a means through which employees can report observed misconduct anonymously.
 6. **Whistleblowing** occurs when an employee exposes an employer's wrongdoing to outsiders, such as the media or government regulatory agencies.
 - a. Businesses usually encourage employees to report illegal and unethical practices internally so they can take steps to remedy problems before they result in legal action or negative publicity.
 - b. To discourage retaliation against whistleblowers, the government may reward firms that encourage employees to report misconduct with reduced violations and fines when penalties do occur.
 - c. The government has established a whistleblower bounty program to reward whistleblowers a percentage of monetary sanctions over \$1 million.
 7. The current trend is to move away from legally based initiatives in organizations to cultural- or integrity-based initiatives that make ethics a part of core organizational values.
 8. Firms that develop higher levels of trust function more efficiently and effectively and avoid damage to their company's reputation and product image.

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LO 2-4

III. The Nature of Social Responsibility

- A. There are four dimensions of social responsibility: economic, legal, ethical, and voluntary.
 1. Economic responsibility means earning profits, the base of the pyramid of social responsibility.
 2. Legal responsibility means complying with the law.
 3. We looked at ethical responsibility in the first half of this chapter
 4. Voluntary responsibilities are non-required activities that promote human

welfare or goodwill.

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- B. **Corporate citizenship** is the extent to which businesses meet the legal, ethical, economic, and voluntary responsibilities placed on them by their stakeholders.
 - a. Involves action and measurement of how deeply the firm embraces the corporate citizenship philosophy
 - b. Then follows through by implementing citizenship initiatives
 - c. The Ethisphere Institute lists some of the World's Most Ethical Companies using corporate citizenship as part of the criteria
- C. The concept of social responsibility is not universally accepted.
 - a. The main argument for social responsibility is that business helped create many of the social problems, so it should play a significant role in solving them, especially in the areas of pollution reduction and cleanup.
 - b. The main argument against social responsibility is that these programs distract from the primary goal of business – earning profits.

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LO 2-5

D. Social Responsibility Issues

- 1. Social responsibility is dynamic, with issues changing constantly in response to society's demands.
 - a. Research shows it is linked with improved business performance.
- 2. Relations with Owners and Stockholders
 - a. Businesses must first be responsible to their owners who are primarily concerned with earning a profit or a return on investment in a company.
 - b. This responsibility is more easily fulfilled in small businesses than in large businesses.
 - c. A business's responsibility to its owners and investors includes maintaining proper accounting procedures, providing all relevant information, protecting the owners' rights and investments, and maximizing the owners' investment in the firm.
- 3. Employee Relations
 - a. Employees expect businesses to provide them with a safe workplace, to pay them adequately for their work, and to tell them what is happening in their company.
 - b. Many of the laws regulating safety in the workplace are enforced by the Occupational Safety and Health Administration (OSHA).
 - c. Labor unions have also made significant contributions to achieving safety in the workplace and improving wages and benefits.
 - d. A major social responsibility for business is providing equal opportunities for all employees regardless of sex, age, race, religion, or nationality.

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- 4. Consumer Relations
 - a. **Consumerism** involves the activities that independent individuals, groups, and organizations undertake to protect their rights as consumers.
 - 1) Consumer activities include writing letters to companies, lobbying government agencies, making public service

- announcements, and boycotting companies.
- 2) Many of the desires of those involved in the consumer movement have a foundation in John F. Kennedy's 1962 consumer bill of rights:
 - a. The *right to safety* means that a business must not knowingly sell anything that could result in personal injury or harm to the consumer.
 - b. The *right to be informed* gives consumers the freedom to review complete information about a product before they buy it.
 - c. The *right to choose* ensures that consumers have access to a variety of products and services at competitive prices.
 - d. The *right to be heard* assures consumers that their interests will receive full and sympathetic consideration when the government formulates policy.

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5. Sustainability Issues
 - a. **Sustainability** means conducting personal and organizational activities in a way that allows for the long-term well-being of the natural environment, including all biological entities.
 - b. Sustainability involves the assessment and improvement of business strategies, economic sectors, work practices, technologies, and lifestyles so that they maintain the health of the natural environment.
 - c. Environmental protection emerged as an important issue in the 20th century.
 - d. Pollution
 - 1) Water pollution results from the dumping of contaminants into water resources, oil spills, and the burial of waste and contaminants in the ground, affecting underground water supplies.
 - 2) Air pollution is the contamination of the air by smoke, manufacturing pollutants, carbon monoxide, and hydrocarbons emitted by motor vehicles.
 - 3) Land pollution—which is tied directly to water pollution because many of the contaminants dumped on the land work their way into the water supply—results from the dumping of residential and industrial waste, strip mining, forest fires, and poor forest conservation.
 - e. Alternative energy
 - 1) Fossil fuels are problematic because of pollution, depleted stores, and political problems with countries from which they are exported.
 - 2) Alternative sources of energy include wind power, solar power, nuclear power, biofuels, electric cars, and hydro- and geothermal power.
 - f. Response to environmental issues
 - 1) Many companies now have a vice president of environmental affairs position
 - 2) Environmentalism can help a company reduce waste, save

PPT 2.34-2.35

- money, and improve its reputation
- 3) Environmentalists are becoming concerned that some companies are merely *greenwashing*, or “creating a positive association with environmental issues for an unsuitable product, service, or practice.”
- 4) Environmental responsibility always involves trade-offs between costs of reducing/eliminating pollution and the health threats of not doing so.
- 5) Managers must coordinate environmental goals with social/economic ones
- g. Community Relations
 - 1) The most common way in which businesses exercise their community responsibility is through donations to local and national charitable organizations.
 - 2) Even small companies participate in philanthropy through donations and volunteer support of local causes of interest.

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IV. Unemployment

- A. Many companies have become concerned about the quality of education in the United States as unemployment has become a significant problem since the financial crisis in 2008.
- B. Although most would argue that unemployment is an economic issue, it also carries ethical implications.
 - 1. Businesses have been criticized for high executive compensation, massive layoffs, factory closures, and hiring standards.
- C. On the other hand, some businesses are working to reduce unemployment.
 - 1. They donate funds, equipment, and time to help schools and provide scholarship money.
 - 2. Business is also taking more responsibility for the hard-core unemployed.

BOXED TEXT DISCUSSION QUESTIONS

New Orleans Saints Faces Down Bounty Scandal

Business ethics does not just apply to the corporate world. It applies to all organizations, including sports, politics, nonprofits, and more. The bounty scandal of the New Orleans Saints football organization is an example of ethical misconduct in leadership. The head coach, assistant coach, defensive coordinator, and general manager all received suspensions for offering a monetary award to the defensive line players who would “cart off” (\$1,000) or “knock out” (\$1,500) their opponents during games. These abusive and intimidating behaviors are not just a way to win games but are serious threats to the safety of the players.

According to most football players in the NFL, the bounty system is a common occurrence but is usually orchestrated on a small scale by the players without the knowledge of management. Under the leadership of the New Orleans Saints, the players succumbed to an ethical dilemma: Take out their opponents and receive the money to increase their chances of winning a game, or not get involved. The culture that the management of the Saints nurtured did not reflect the code of ethics the NFL promotes, which is player safety and competitive integrity. Some of the players were also suspended, but the suspensions were lifted after an appeals panel decided there was not enough evidence against

them. This damaged reputation might take the team years to recover from. However, the New Orleans Saints team has learned the major lesson that ethical leadership is important to success.

1. Describe the ethical issue the New Orleans Saints faced.

The ethical issue here began with top management. Any NFL top managers should have stepped in to halt the bounty system enacted by the players, but the endorsement of the Saints' top management is a serious ethical issue for their organization. The culture that the management of the Saints nurtured did not reflect the code of ethics the NFL promotes, which is player safety and competitive integrity.

2. What does this situation say about the New Orleans Saints' organizational culture?

The organizational culture was highly unethical in the Saints' organization. Most unethical activities within organizations are supported by an organizational culture that encourages employees to bend the rules.

3. What are some ways the New Orleans Saints team might begin to rebuild its reputation?

Replacing top management is a start. Fining players who participate in any type of bounty program is another way to start to rebuild their reputation. The Saints' organization also needs to be totally transparent with the public, trying to regain their confidence.

Unilever Makes Palm Oil Sustainable

Unilever is working toward full sustainability when it comes to palm oil production. The process of extracting palm oil has gained global attention because of unsustainable practices such as deforestation, which has led to the destruction of native animal habitats. Because Unilever is a large company that works with an extensive supply chain, maintaining ethical sourcing practices can be a bit of a burden and are hard to track. Yet as the buyer, Unilever is responsible for any unethical sourcing practices in its supply chain.

Unilever is attempting to monitor its supply chain in two ways. First, it has invested \$100 million to build a palm oil processing plant in Indonesia, the source of much of its palm oil, to ensure responsible practices. Second, Unilever is purchasing Green-Palm certificates from the Roundtable on Sustainable Palm Oil (RSPO) when it purchases palm oil from other processing companies. The RSPO monitors the practices of palm oil processing companies and issues them certificates when they meet sustainable, environmentally responsible standards. These certificates can then be purchased by companies such as Unilever in an attempt to ensure ethically sourced supply chains. This alleviates some of the skepticism about the origins of the palm oil. However, this method is not entirely dependable because the processing of all the palm oil is not completely traceable. Despite limitations, it is a step in the right direction for Unilever. The company hopes to have full sustainability in palm oil processing within the next ten years.

1. Why is it so difficult for large firms to monitor their supply chains?

Palm oil production is difficult to track due to the differences in cultures and sustainable practices. What one country labels "sustainable" may not be so for another country. Maintaining a paper trail in less developed countries can be a challenge and make the end product virtually untraceable.

2. What are some ways that Unilever is attempting to improve the sustainability of its supply chain?

They are attempting to monitor the supply chain more closely. Building its own processing plant is a very big step in monitoring the supply chain. Unilever is also purchasing Green-Palm certificates as an attempt to ensure ethically sourced supply chains.

3. What are some problems with relying on GreenPalm certificates? The processing of palm oil itself makes the product untraceable so the certificates do little. However, they do

raise awareness. **Do you think Unilever should do more to ensure the sustainability of its palm oil sourcing?** Purchasing its own processing plant is a very big step. Unilever could take it further by working with the farmers in the areas surrounding the plant, educating them and in turn receiving quality assured product.

APPENDIX BOX:

Web Marketers Experience Limitations on Online Tracking of Children

Web marketers may soon see restrictions placed on their ability to collect information about children. COPPA, the Children's Online Privacy Protection Act, is looking to pursue stricter privacy measures on online tracking that has been leaving room for children to be tracked through games, apps, social networks, and websites. The privacy measures are aimed directly at users under the age of 13. Although COPPA prohibits websites from collecting certain types of information on children under 13 without parental consent, the growing use of smart phones and other devices has provided online marketers with an opportunity to bypass these rules.

The proposed changes are expected to close loopholes that allow companies to access children specifically with third-party advertising through Facebook and iPhone games without parental consent. These changes would also include blocking cookies and/or disabling geolocation systems, which can be used to target children with advertising, specifically on smart phones. For websites to gain consent, parents would have to provide their e-mail addresses or names.

Updating COPPA could help protect child safety and enable parents to feel more secure when their children download apps or games on mobile devices. On the other hand, many companies are against the rules, saying they already take measures to protect children's anonymity. They also claim that additional regulations could hinder online advertising, which is necessary to finance the free online content they offer to children.

1. Why do regulators think it necessary to update COPPA?

The proposed changes will close loopholes that allow companies to access children specifically with third-party advertising without parental consent. The increased use of SmartPhones is another reason COPPA needs updated. There are new technologies available that were not around when the Act was enacted.

2. What are some of the proposed changes that regulators are recommending?

The proposed changes are expected to close loopholes that allow companies to access children specifically with third-party advertising through Facebook and iPhone games. These changes would also include blocking cookies and/or disabling geolocation systems, which can be used to target children with advertising, specifically on smart phones. For websites to gain consent, parents would have to provide their e-mail addresses or names.

3. What are some of the arguments that companies have against new regulations?

Many companies are against the rules, saying they already take measures to protect children's anonymity. They also claim that additional regulations could hinder online advertising, which is necessary to finance the free online content they offer to children.

SUPPLEMENTAL LECTURE

Recycling: A Dilemma for Business Firms

In the United States, the amount of consumer and industrial waste has been increasing regularly. It

was estimated that by the year 2010, total municipal solid waste reached 250 million tons. Ecological authorities frequently tout recycling as a means of slowing down waste and the need for landfill space. Biodegradable products, those which decompose, are also recommended.

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

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

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

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

When consumers and business firms find it is in their economic interests to recycle, then perhaps producers will find ways to use recycled products. For example, Pitney Bowes of Canada Ltd. is one of many companies that now sells copiers that take reusable toner cartridges. Thermo Tech Technologies Inc., another Canadian company, uses a patented technology to turn organic wastes into animal feed supplements or fertilizers.

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

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

Sources:

Kristina Dell, "The Promise and Pitfalls of Bioplastic," Time, May 3, 2010, <http://www.time.com/time/magazine/article/0,9171,1983894,00.html> (accessed September 10, 2013); "The Home Depot and the Environment," Home Depot, Inc. corporate website, <https://corporate.homedepot.com/CorporateResponsibility/Environment/Pages/default.aspx> accessed September 10, 2013); Jacquelyn Ottman, "A Little Creativity Could Lead to a Big Advantage," *Marketing News*, March 27, 1995, p. 11; Kevin Kelly, "It Really Can Pay to Clean up Your Act," *Business Week*, November 7, 1994, p. 141; Johanna Powell, "Companies Get Their Due for Public Service," *The Financial Post*, November 12, 1994, p. s15; Seventh Generation website, <http://www.seventhgeneration.com/> (accessed September 10, 2013).

Discussion Questions:

1. Why has recycling become more popular and widespread?

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

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

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

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

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

CONTROVERSIAL ISSUE

Would You Be the One to Blow the Whistle?

Ethics is concerned not only with an individual's conduct but also with how an individual responds to the actions of others. An employee who takes action upon observing improper conduct by a fellow employee is often referred to as a whistleblower. Having read of the harassment that most often comes to a whistleblower, however, a person will probably think long and carefully before blowing the whistle. The case below is a fictitious example used to discuss the ethical problems for employees.

Adam Brown worked in the design engineering department of a manufacturing firm. One of the policies of the manufacturing firm was that no employee should accept gifts of more than \$20 from outside suppliers or firms. As part of his job, Adam Brown frequently communicated and worked with

the purchasing department in his firm in providing material and equipment specifications for purchases. Adam's dealings with Martin Cooper, director of the purchasing department, and other employees of the purchasing department were friendly and cordial, and all purchases made for the manufacturing firm seemed to be made in a professional manner.

One day while talking to a sales representative of one of his firm's suppliers, Adam discovered that Martin Cooper and his wife had received a free trip to the Bahamas, with all air, hotel, and meal expenses paid by the sales representative's company. Adam knew that Martin had not won the trip in a drawing or sweepstakes, and he realized it was an "under the table" gift to Martin for buying the sales representative's products. Accepting such a gift from a supplier was strictly against company policy. Adam likes Martin, and Adam has no evidence that Martin had given special consideration to the supplier in selecting the supplier's products. Also, the supplier's products have met or exceeded all the engineering specifications. Adam rationalizes that most likely the trip was just an expression of appreciation from the supplier, but he still agonizes about what he should do.

Discussion Questions:

(Note: the following questions will all vary depending on the students' point of view. Make sure that they defend their responses no matter which stance they take.)

- 1. Was Martin Cooper's free trip an example of unethical business behavior?**
- 2. Should Adam report to one of his company's executives about what he had discovered? Or should he talk to Martin Cooper? Or should he just keep quiet?**
- 3. If he decides to do nothing, is Adam guilty of unethical business behavior?**

SO YOU WANT A JOB IN BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

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

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

CHECK YOUR PROGRESS

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

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

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

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

3. Why has ethics become so important in business?

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

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

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

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

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

6. List and discuss the arguments for and against social responsibility by business (Table 2.8). Can you think of additional arguments (for or against)?

Arguments for social responsibility include (1) business helped create problems and should help to solve them; (2) business has the financial and technical resources to help solve problems; (3) as a member of society, business should do its fair share to help others; (4) social responsibility can help prevent increased government regulation; and (5) social responsibility helps to ensure economic survival.

Arguments against social responsibility include (1) social responsibility detracts from the profit-making objectives of business; (2) participation in social responsibility programs gives business power at the expense of other segments of society; (3) business may not have the expertise to solve social problems; and (4) social problems are the responsibility of government agencies.

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

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

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

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

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

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

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

TEAM EXERCISE

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

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

Sample Answers:

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

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

TERM PAPER OR PROJECT TOPICS

These topics may be assigned as individual or collaborative projects:

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

GUEST SPEAKER SUGGESTIONS

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

TEACHING SUGGESTIONS

1. As indicated in “Teaching Suggestions” for Chapter 1, instructors may wish to vary the daily organization of the lesson. Varying the sequence of activities adds variety to class presentation.
2. At the beginning of the chapter in the textbook and in this *Instructor’s Manual*, objectives are provided. Many instructors write the objectives on the chalkboard or on an overhead at the beginning of the class session and then at the end of the session check off each objective to determine if all the objectives have been achieved. Educational research indicates students learn more effectively when there is a summarization or review of the textbook content at the end of class sessions.
3. As a “writing to learn” exercise, allow approximately five minutes for students to write their thoughts or summary on this topic:

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

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

4. “Check Your Progress” is important for this chapter. A suggestion for large lecture halls is to

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assign different question numbers to different rows. Then call upon one person in a row to give his or her answer.

5. The instructor can lecture using the “Lecture Outline,” covering all of the chapter content. An alternative is not to cover the entire chapter but simply to use the PowerPoints to cover main points of the chapter; then the instructor may have time to use the “Supplemental Lecture” and/or “Controversial Issue” material provided in this *Instructor’s Manual*. If students are to have read the chapter prior to class, then the instructor may spend less time lecturing and more time with additional material, discussion questions, and boxed material or cases.
6. Use the quiz provided. Have students write answers quickly. Then have students call out the correct answers in unison. Ask if there are any questions about any of the answers.
7. Occasionally, an instructor may wish to give oral instructions or information to reinforce listening skills. One business professor gives part of her test instructions orally; she believes that teachers reward inattention by repeating information time and time again. She warns students that she will give the instructions only once and will not repeat instructions. Her students learn to listen!