

# Chapter 3

## The Manager's Changing Work Environment and Ethical Responsibilities: Doing the Right Thing

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## Teaching Resource Manual: A Guide to Implementation

The purpose of the Teaching Resource Manual (TRM) is to support you in the delivery of your chosen curriculum in either a face-to-face or online classroom formats. It also was created to help you address some of the **following challenges in higher education**:

- Addressing the inability to measure student comprehension prior to major assignments such as a midterm or project.
- Overcoming the inability to tailor your lecture to the topics that students find difficult.
- Increasing student engagement by providing opportunities for them to apply the knowledge gained in the classroom to real-world scenarios.
- Providing students with opportunities for self-reflection outside of classroom activities.
- Increasing students' critical-thinking and problem-solving skills.

You will learn that we created many different teaching resources you can use either before, during, or after class. Because of the quantity of options, the goal of this implementation guide is to provide an overview of how you might select the many teaching resources at your disposal.

### So What Assets Can I Chose From?

Generally, a typical class session for any course comprises three “touch points”: before, during, and after class. For a face-to-face course, your class session would normally be the day you lecture to students. For an online course, the class session would be when you recorded the lecture or when the live lecture is streamed on the Web.

Our teaching resources fall into nine categories: SmartBook, connect application exercises, videos, self-assessments, online readings, discussion starters, mini-cases and full cases, experiential or follow-up activities, and group exercises. After describing the use of SmartBook and connect application exercises, we discuss how you might use these teaching resources before, during, or after class.

### Assigning SmartBook and Connect Application Exercises

Connect gives you a wide array of flexibility in making assignments and creating grading policies. You may choose to:

- assign as many assignments as appropriate.
- determine point values for each question/application exercise individually.
- make available multiple attempts per assignment with options of accepting the highest score or averaging all the scores together.
- deduct points for late submissions of assignments (percentage deduction per hour/day/week/so forth) or create hard deadlines.
- show feedback on application exercises/questions immediately or at your preference.
- provide for study-attempts to allow for completion of the assignment after the due date without assigning a point value.

Some recommendations include:

- Before selecting the option for one attempt only, select unlimited or multiple attempts on the first few assignments to allow students a chance to learn and navigate the system.
- Provide a low point value for each question because multiple questions are usually assigned for each chapter. A good rule of thumb would be to make “Quiz Questions” worth 1 point each and “Application Exercises” worth 5 to 10 points each because these require more time and thought.
- Select feedback to be displayed after the assignment due date in order to limit students from giving the correct answers to other students while the application exercise is still available.

### **So When Do I Assign Each Type of Teaching Resource?**

Wouldn't it be wonderful if you could transition from simply assigning readings, lecturing, and testing to actually adapting your teaching to student needs? By utilizing the teaching resources outlined below during the three touch points, you can significantly impact students' learning and create a learning environment that is more engaging, involving, and rewarding. In other words, you can now tailor your classrooms to pinpoint and address critical challenges, thereby creating the greatest impact. The following recommendations pertain to these mentioned touch points, with an additional [matrix](#) that follows.

#### ***Before Class***







The learning goals we have for students determines our assignments before, during and after class. For example, you may want to focus on mastering content, applying content, or using content to solve problems. Alternatively, you may want to achieve all three goals.

If your goal is mastery of content, Connect offers a host of additional pre-class assignments to choose from. They include case analyses, click and drags, video cases, Manager's Hot Seats, self-assessments, and quizzes and tests. Case analyses, click and drags, and video cases are optimal exercises to be utilized prior to class, as they provide students the opportunity to practice and apply key course concepts.

A reading assignment—typically a chapter from the product in use—is a student's initial exposure to course content. Requiring students to complete a SmartBook module either prior to class or an online lecture allows you to gauge their comprehension of the material. Having a better sense *before* class of which concepts your students are “getting” and which ones they are not, allows you to more effectively and efficiently plan your time with them *during* class. To ascertain student competency, use the reporting function of SmartBook, where you can view general results of their performance. To ascertain student confidence in their competency, pull a metacognitive skills analysis report. Below are screenshots of both a general results report

and a metacognitive skills analysis. In the sample report of student comprehension by topic, note the percent of questions answered correctly in the last column of the report.

**Self-study work**  
**Number of assigned items: 73**

Chapter section	Average time spent (hh:mm:ss)	Average questions per student correct / total	Correctness	
			0%	100%
Global Management Managing across Borders	0:05:27	55 / 73		75%
4.1 Globalization: The Collapse of Time & Distance	0:00:41	7 / 8		86%
4.2 You & International Management	0:00:29	5 / 6		82%
4.3 Why & How Companies Expand Internationally	0:01:04	11 / 14		76%
4.4 The World of Free Trade: Regional Economic Cooperation	0:01:35	16 / 21		78%
4.5 The Importance of Understanding Cultural Differences	0:01:36	16 / 24		67%

Sample Report of Student Comprehension by Topic shows you what topics students are struggling with.

In the sample metacognitive skills analysis, the percentages show how much students know, but didn't realize they knew, as well as how much they *didn't know*, but thought they did know. This allows instructors to make sure students are cognizant about what they know or don't know, before expecting them to be competent in the concepts being taught. Such metacognitive analysis would have been unimaginable in the past because it would be difficult to find out which students had read and understood the material, let alone if they were aware or unaware of their inability to comprehend.

**Sample report. Metacognitive skills**

Student	Correct & aware	Correct & unaware	Incorrect & aware	Incorrect & unaware	E-mail
Student, 25	7%	53%	36%	4%	student25@mail.com
Student, 26	59%	29%	4%	8%	student26@mail.com
Student, 27	7%	68%	23%	2%	student27@mail.com
Student, 28	18%	41%	28%	13%	student28@mail.com
Student, 29	7%	66%	24%	3%	student29@mail.com
Student, 30	11%	64%	18%	7%	student30@mail.com
Student, 31	6%	60%	31%	3%	student31@mail.com
Student, 32	6%	53%	37%	5%	student32@mail.com
Student, 33	7%	68%	23%	3%	student33@mail.com
Student, 1	7%	72%	20%	1%	student1@mail.com
Student, 34	9%	79%	10%	1%	student34@mail.com
Student, 2	13%	52%	29%	6%	student2@mail.com
Student, 35	47%	30%	8%	15%	student35@mail.com

Sample Report of Metacognitive Skills Analysis shows you student consciousness or unconsciousness in regards to competency.

Additionally, Connect application exercises, such as case analyses, click and drags, and video cases, offer students a second exposure to important sections of the chapter after their completion of a SmartBook assignment.

Finally, you can use iSeelt videos to emphasize content we have found difficult for students to understand. These animated videos were developed to further unpack in brief, yet effective, fashion the course topics that most commonly challenge students. Each animated video is accompanied by auto-graded multiple-choice questions that can be assigned to confirm student comprehension.

If your learning objectives include fostering application and integrating the concepts discussed with real world practice, then Management in Action or legal/ethical challenge cases can be assigned so students can think critically and understand how what they are learning is actually practiced by successful professionals. The Management in Action cases have multiple-choice questions that can be assigned in Connect to gauge student comprehension.

### ***During Class***

The TRM offers a host of additional materials and experiential activities you can use to bring chapter content to life.

If your goal is content mastery and you are utilizing SmartBook, you can plan class activities and lecture based on results from the general results report and the metacognitive skills report. This allows for a more tailored class period that enhances student engagement and more opportunities to resolve gaps in knowledge. We also provide links to online readings that you can use to supplement the content covered in the textbook. They are useful if you desire to provide additional material beyond that covered in the text.

If your goal is to create an engaging learning environment filled with student discussion and interactions, we provide multiple resources. First, each major heading in a chapter contains suggested discussion starter questions. These open-ended questions are likely to foster student discussion and engagement. We also provide additional activities (i.e., experiential exercises) for every Example and Practical Action box.

If your goal is to provide for additional application of material, the TRM breaks down the textbook Management in Action cases and legal/ethical challenges by providing questions and ideal responses. Connect also has multiple-choice questions that can be assigned for the Management in Action cases. Finally, the TRM has a selection of group exercises that allows instructors to focus on team learning methods.






























If your goal is to jointly engage your students while applying content from the text, you can select such activities as the Manager's Hot Seats Connect follow-up activities, or self-assessment follow-up activities (all follow-up activities are found in the TRM). These assets are especially useful if you are "flipping" your classroom, wherein the class session is used for application and analysis of key concepts rather than lecture. [The Resources across Teaching Touch Points Matrix](#) provides a quick reference for activities that can be utilized during class.

### ***After Class***

After the face-to-face class session, or online lecture, you can assign Connect application exercises as homework to further reinforce the material covered in the textbook and lecture. You may also want to assign an iSeelt! animated video if you notice that students are struggling with a particular topic, even after class. After each unit (planning, organizing, leading, and controlling) students can also be assigned the cumulative case, which includes assignable

multiple-choice and essay-based questions. To further gauge student comprehension, you can also assign a quiz or exam. The quiz banks in Connect focus more on defining and explaining material, and the test banks focus more on application and analysis.

### Resources Across Teaching Touch Points Matrix

Type of Asset	Before-Class/Lecture	During-Class/Lecture	After-Class/Lecture
Smart Book			
Connect Application Exercises			
Connect Application Exercise TRM Follow-up Activities			
iSeelt! Animated Videos			
Self-Assessments			
TRM Self-Assessment Follow-up Activities			
Quizzes/Tests			
Legal/Ethical Challenges			
Manager's Hot Seats			
Cumulative Case			
TRM Box Additional Activities (i.e. Example and Practical Action)			
Management in Action			
Group Exercises			
TRM Discussion Starters			
TRM Online Readings			

### A Week at a Glance

When creating a syllabus and schedule for students, you can utilize the above-mentioned matrix as a guide. Let's use the following example: You teach a **face-to-face** Principles of Management course, and the course meets once-a-week on Wednesday afternoons. If this is the fourth week of the semester and you are covering Chapter 4 on Global Management, the following format can be utilized:

#### **Before Class (before Wednesday)**

- *Assign Chapter 4 in SmartBook, making it due Tuesday evening so that reporting can be reviewed prior to the lecture on Wednesday. The lecture can be customized based on what concepts in the chapter students are struggling most with, as can be seen in the reporting function of SmartBook by going to "Reporting" then clicking the "LearnSmart" tab.*

- *A click and drag, such as one on “The GLOBE Project,” can be assigned. This can also be due on Wednesday so that students are able to practice prior to class, and you can also review results prior to lecturing.*
- *A case analysis, such as “Costco Plans to Grow Its International Market,” can also be included so that students can learn about applying the concepts from the reading to a real-life scenario; therefore, further engaging them prior to the class session. If desired, you can then introduce a follow-up activity, found in the Teaching Resource Manual, during class on Wednesday.*
- *A self-assessment can be assigned, such as “Assessing Your Consumer Ethnocentrism,” in order to follow-up on content covered in the reading and to provide students with an opportunity to self-reflect, and by seeing how it affects their personal lives, become engaged with the content. This can set up a class activity to follow on Wednesday. Follow-up activities can be found in the Teaching Resource Manual.*

### **During Class (on Wednesday)**

- *You can deliver a short, yet effective, lecture and focus on areas that students are really struggling with. This can be done by reviewing the reporting from SmartBook and any assigned Connect application exercises, such as the recommended click and drag and case analysis. If students are struggling with a particular learning objective, you can then tailor the lecture and/or class activities to address those challenging concepts.*
- *If you are flipping the class and utilizing the in-person session for activities, you can utilize the follow-up activities from previously assigned Connect application exercises in the TRM.*
- *You can assign a self-assessment earlier in the week, for example on “Assessing Your Global Manager Potential,” and have students complete a follow-up activity during the class session based on the self-assessment results. Remember, follow-up activities for each Connect application exercise can be found in the TRM.*
- *Manager’s Hot Seats can be utilized to open up class discussion. Many of these Hot Seats cover frequent, yet controversial topics, and they ask students to describe what their decision-making process would be in those situations. Many times students will recommend conflicting approaches to solving the issues in the videos; therefore, there is more class engagement. For the global management chapter, one recommended Manager’s Hot Seat is “Cultural Differences: Let’s Break a Deal.” Follow-up activities for this, and every other Hot Seat, can be found in the TRM.*
- *If time allows, and you would like to dive into real situations, you can discuss an Example Box from the text titled, “E-Commerce: Peer-to-Peer Shopping by Smartphone.” There is an additional in-class activity in the TRM that asks students to read a Wall Street Journal article on a mobile shopping network, then watch a four-minute video.*

### **After Class (after Wednesday)**

- *You can assign a Connect application exercise, such as “Disney Imagineering,” to reinforce student comprehension of material and to also test application of concepts.*

- *If students have been struggling with a particular topic, an iSeelt! animated video can be assigned to reinforce the concept in a short, effective manner. For Chapter 4, the iSeelt! video titled “Global Expansion” can be assigned via Connect.*
- *You can assign an online quiz or test on the material. For example, Chapter 4 includes 20 available quiz questions and 95 test questions.*
- *If you would like students to have one final application-based exercise, you can ask them to review the Management in Action case titled, “Costco Plans to Grow Its International Markets.” Students can respond to the four essay questions that follow, and/or they can complete multiple-choice questions on Connect.*

If you are teaching a **completely online course asynchronously**, then the in-person class above can be substituted for a recorded online lecture that is customized based on SmartBook reporting. Students can be instructed to complete pre-class activities prior to watching the lecture, and post-class activities after the online lecture. A gap can be included between pre-class activities and the recording of the lecture so that reporting can be reviewed.

This example is simply a week out of many that will provide for rigorous learning and student impact! You can utilize this format when creating a syllabus and extrapolate the rest of the weeks.



## LEARNING OBJECTIVES

**After studying this chapter, students should be able to answer the following questions:**

- 3.1 Is profit the only important goal of a business? What are others?
- 3.2 Stockholders are only one group of stakeholders. Who are the stakeholders important to me inside the organization?
- 3.3 Who are the stakeholders important to me outside the organization?
- 3.4 What does the successful manager need to know about ethics and values?
- 3.5 Is being socially responsible really necessary?
- 3.6 How can I trust a company is doing the right thing?

## TEACHING RESOURCES

Section	Title	Resource Type
<b>3.1: The Triple Bottom Line: People, Planet, &amp; Profit</b>		
	<a href="#">Vimala's Curryblossom Café Supplemental Activity</a>	Web Video (3 minutes)
<b>3.2: The Community of Stakeholders Inside the Organization</b>		
	Should You Sell That Product? <a href="#">Supplemental Activity</a>	<i>Harvard Business Review Case Study*</i>
	<a href="#">How the San Bruno Trial Could Help PG&amp;E Supplemental Activity</a>	Online Article
	<a href="#">Stealing from the Company</a>	Connect Video Case
<b>3.3: The Community of Stakeholders Outside the Organization</b>		
	<a href="#">A Stakeholders' Strike Supplemental Activity</a>	Web Video (9 minutes)
	<a href="#">Amazon Invades India Supplemental Activity</a>	Online Article
	<a href="#">Hollywood Goes on the Road Supplemental Activity</a>	Web Video (7 minutes)

	<a href="#">Nestlé's Half-Billion-Dollar Noodle Debacle in India</a> <a href="#">Supplemental Activity</a>	Online Article with Video (4 minutes)
	<a href="#">Is Tech Making Us Dumb?</a> <a href="#">Supplemental Activity</a>	Web Video (4 minutes)
	<a href="#">The Organization's Environment</a>	Connect Click and Drag
<b>3.4: The Ethical Responsibilities Required of You as a Manager</b>		
	<a href="#">Small Nudges Can Create Ethical Behavior</a> <a href="#">Supplemental Activity</a>	Web Video (11 minutes)
	<a href="#">Solving an Ethical Dilemma</a>	Group Exercise
	Assessing My Perspective on Ethics <a href="#">Self-Assessment Activity</a>	Self-Assessment
	<a href="#">How Organizations Can Promote Ethics</a>	Connect Click and Drag
	<a href="#">Ethical Dilemma: Should Facebook Take a More Proactive Approach in Monitoring the Children's Online Privacy Protection Act?</a>	Connect Case Analysis
<b>3.5: The Social Responsibilities Required of You as a Manager</b>		
	The Truth about CSR <a href="#">Supplemental Activity</a>	<i>Harvard Business Review</i> article*
	<a href="#">Salesforce CEO on Using Business for Social Activism</a> <a href="#">Supplemental Activity</a>	Web Video (7 minutes)
	<a href="#">Carroll's Corporate Social</a>	Connect Click and

	<a href="#">Responsibility</a>	Drag
	<a href="#">IKEA's Corporate-Social Responsibility</a>	Connect Case Analysis
	Assessing Your Attitudes toward Corporate Responsibility <a href="#">Self-Assessment Activity</a>	Self-Assessment
<b>3.6: Corporate Governance</b>		
	Corporate Governance 2.0 <a href="#">Supplemental Activity</a>	<i>Harvard Business Review</i> article*
	<a href="#">Companies Pull Back on CEO "Failure Parachutes"</a> <a href="#">Supplemental Activity</a>	Online Article
<b>Comprehensive Materials</b>		
	<a href="#">Blue Bell Is Accused of "Recall Creep" in Its Handling of Ice Cream Contamination</a>	Management in Action
	<a href="#">Should You Apply to Have Your Student Loans Forgiven?</a>	Legal/Ethical Challenge
	<a href="#">Focusing on Ethics and People at Whole Foods</a>	Publisher Video
	<a href="#">Exxon Valdez Health Issues</a>	Publisher Video

\**Harvard Business Review* articles are subscription based or accessible via [hbsp.harvard.edu](https://hbsp.harvard.edu) as examination copy.

## OVERVIEW OF THE CHAPTER

### 3.1 The Triple Bottom Line: People, Planet, & Profit

The **triple bottom line**, representing the 3 Ps of **People**, **Planet**, and **Profit**, has found favor with many young adults (millennials) who are more concerned with finding meaning than material success. An organization's success on the 3 Ps can be assessed through a **social audit**.

### 3.2 The Community of Stakeholders Inside the Organization

Managers operate in two organizational environments—**internal** and **external**—both made up of **stakeholders**, the people whose interests are affected by the organization. The first, or internal, environment consists of employees, owners, and the board of directors.

### 3.3 The Community of Stakeholders Outside the Organization

The external environment of stakeholders consists of the **task environment** and the **general environment**. The task environment consists of customers, competitors, suppliers, distributors, strategic allies, employee associations, local communities, financial institutions, government regulators, special-interest groups, and the mass media. The general environment consists of economic, technological, sociocultural, demographic, political-legal, and international forces.

### 3.4 The Ethical Responsibilities Required of You as a Manager

Managers need to be aware of what constitutes ethics and values, and how to promote ethics. The four approaches to deciding ethical dilemmas are: **utilitarian**, **individual**, **moral-rights**, and **justice**. Various white-collar crimes, including **insider trading** and **Ponzi schemes**, resulted in the passage of the **Sarbanes-Oxley Reform Act**, which established record keeping and reporting requirements. An organization should create a strong **ethical climate**, screen out dishonest employees, have a **code of ethics**, and protect **whistle-blowers**.

### 3.5 The Social Responsibilities Required of You as a Manager

Managers need to be aware of the viewpoints supporting and opposing **social responsibility** and whether being and doing good pays off financially for the organization. The **corporate social responsibility pyramid** consists of the following responsibilities: **economic**, **legal**, **ethical**, and **philanthropic**. One type of social responsibility is concern about **climate change**, **sustainability**, and **natural capital**. Another type of social responsibility is **philanthropy**, which is making charitable donations to benefit humankind.

### 3.6 Corporate Governance

**Corporate governance** is the system of governing a company so that the interests of corporate owners and other stakeholders are protected. Members of the board of directors, both insiders and outsiders, should be chosen to act ethically. Company directors should be clearly independent in their authority from the CEO by insisting on strong financial reporting systems and more accountability.

## CLASSROOM OUTLINE

### **The Manager's Toolbox: How Do People Excuse Lying & Cheating?**

Two psychological mechanisms that can contribute to why people cheat are described in this toolbox. The first is a “holier-than-thou” effect that causes people to be overly optimistic about their moral judgment. The second is motivated blindness, which is the tendency to overlook information that works against our best interest. Cheating may begin with small infractions, but if these infractions are never punished, they can eventually grow to become an ongoing deliberate strategy of deception or fraud. Justifications for cheating include the fact that it provides useful shortcuts; it arises out of resentment; it seeks to redress perceived unfairness; and it is done to avoid feeling like a chump.

#### **Possible Topics for Discussion:**

- How would you justify cheating and plagiarism? Is it simply required behavior in order to get through college? (“I’m not going to be a chump.”) What do you say to the fact that, as the research shows, students who cheat, and thus don’t actually do the assigned work, are more likely to fail anyway? Do you think you can stop the lying and deception once you’re out in the work world?
- Describe your institution’s reputation when it comes to cheating. If you believe your school is apathetic about addressing cheating, does this influence how you view cheating?
- Describe the extent to which you feel competitive pressures to cheat at school or at work.
- Evaluate the extent to which you agree with the following point of views: (1) helping someone else cheat is not as bad as cheating myself; and (2) it is the instructor’s responsibility to prevent cheating in this class, not mine. Defend your point of view.

### **3.1 The Triple Bottom Line: People, Planet, & Profit**

Is profit the only important goal of a business? What are others?

PowerPoint Slides: 3

Section 3.1 describes the triple bottom line, consisting of the 3 Ps of People, Planet, and Profit. Success in these areas can be measured through a social audit. The concept of the triple bottom line is important to many millennials.

One way that you could begin your coverage of these topics is to have the students watch the video "[Vimala's Curryblossom Café.](#)" This 3-minute video published by Chase profiles a small restaurant that emphasizes the triple bottom line. The restaurant was a 2015 recipient of a Chase Mission Main Street Grant, a program which celebrates small businesses. For a supplemental activity, you could have the students discuss how the emphasis on the triple bottom line helps Vimala's Curryblossom Café achieve competitive advantage and helps its owners achieve meaning in their lives.



### **Possible Topics for Discussion:**

- Evaluate the extent to which your company (or a previous one) performs on each of the dimensions of the triple bottom line. What recommendations for improvement would you provide to the firm?
- Develop goals or performance metrics you would include if you were to conduct a social audit of your academic institution.
- Discuss the reasons why millennials seem to have a greater need for meaning than other generational cohorts.

### **Section 3.1 Key Concepts:**

#### **The Triple Bottom Line**

- **The triple bottom line**—representing People, Planet, and Profit (the 3 Ps)—measures an organization's social, environmental, and financial performance.
- In this view of corporate performance, an organization has a responsibility to its employees and to the wider community (People), is committed to sustainable (green) environmental practices (Planet), and includes the costs of pollution, worker displacement, and other factors in its financial calculations (Profit).
- **Social audit** is a systematic assessment of a company's performance in implementing socially responsible programs.

#### **The Millennials' Search for Meaning**

- The notion of the triple bottom line has particular appeal to many millennials.
- Research shows that many millennials are less focused on financial success than they are on making a difference and having meaningful lives.



## 3.2 The Community of Stakeholders Inside the Organization

Stockholders are only one group of stakeholders. Who are stakeholders important to me inside the organization?

PowerPoint Slides: 4-5

Section 3.2 discusses one of the two organizational environments that managers operate in—internal. The internal environment consists of the following stakeholders: employees, owners, and the board of directors.

One way that you could begin your coverage of these topics is to have the students read the *Harvard Business Review* article “Should You Sell That Product?” This article is an HBR Case Study and includes a fictional case and case commentary by industry experts. This case looks at whether a company should go ahead with its intended launch of a new product, a book series based on a character that some members of the community find disrespectful. Using this case study would be an excellent way to explore the various stakeholders that can be impacted by a firm’s actions and the sources of tension that can exist between internal and external stakeholders. You can ask students to read only the article or also ask them to read the professional commentary. For a supplemental activity, you could have the students provide specific recommendations for how Olivia Torres should approach the situation and discuss the advantages and disadvantages of their plans.

Article Citation:

Fairchild, G., Morayniss, J., & Rice, C. (2015). Should you sell that product? *Harvard Business Review*, 93(1), 113-117.

Product #: R1501K-PDF-ENG

### Possible Topics for Discussion:

- Describe the internal stakeholders of organizations, and identify possible sources of conflict between these stakeholders.
- "The purpose of a business is to make a profit." Evaluate the extent to which you agree with that statement. Defend your point of view.
- Some firms such as Whole Foods seem to place employees and customers as more important stakeholders than the firm’s owners. Evaluate how that approach might give a firm a competitive advantage.

### Section 3.2 Key Concepts:

#### Stakeholders

- **Stakeholders** are the people whose interests are affected by an organization’s activities.

- Managers operate in two organizational environments made up of various stakeholders: internal stakeholders and external stakeholders.
- Figure 3.1 identifies key internal and external stakeholders.

### Interactive Classroom Material:

#### **EXAMPLE: Who Should Be a Company's Most Important Stakeholders? Natural Gas Utility PG&E Pays a Huge Price**

This Example describes an explosion at the Pacific Gas & Electric (PG&E) pipeline in San Bruno, California. PG&E had relied on inaccurate surveys, and the company's internal processes actually encouraged the drafting of these inaccurate surveys. Moreover, an independent audit found that over an 11-year period PG&E collected \$430 million more from its gas operations than the government had authorized. The utility was ordered to pay a record \$1.6 billion in state penalties and other costs and settled 165 lawsuits with residents' and victims' families for \$565 million. It was also indicted on 12 criminal counts for repeatedly violating the federal Pipeline Safety Act.

### Internal Stakeholders

- **Internal stakeholders** consist of employees, owners, and the board of directors, if any.
  - In many forward-looking organizations, employees are considered the most important resource.
- The **owners** of an organization consist of all those who can claim it as their legal property.
  - Owners can be sole proprietorships, partnerships, private investors, or employee owners.
  - The goal of the owners is to make a profit.
- In a corporation, the **board of directors**, whose members are elected by the stockholders, hires the chief executive.
  - In a nonprofit organization, the board may be called the board of trustees or board of regents.
  - Board members help set the organization's overall strategic goals and approve the major strategic decisions.
  - The directors may be executives of the firm or outsiders.

### **Interactive Classroom Material:**

#### **VIDEO CASE:** Stealing from the Company

#### **Summary of Activity:**

In this video case, students will first watch a video on the ethics behind taking office supplies from the company one is working for. Then, they will respond to ten multiple choice questions to measure understanding of ethics and stealing from the office.

#### **Follow-Up Activity:**

Instructor should divide students into small groups and present the following mock exercise:

*Bob and Ernie are close friends who work at a Jerico Corp. a pharmaceutical company. Ernie happens to notice that almost all of his pens and supplies have a habit of disappearing from his desk. He has also noticed that Bob seems to have a great deal of office stationary in his bag. Ernie begins to become a bit suspicious as his fellow co-workers' desk and office supplies also begin to go missing. He approaches Bob who laughs and states that "we can just order more supplies, after all who is really going to miss a few notepads and highlighters?" Ernie is perplexed about how he should respond.*

Groups should identify, analyze, and discuss Ernie's current ethical dilemma with the rest of the class.

## **3.3 The Community of Stakeholders Outside the Organization**

Who are stakeholders important to me outside the organization?

PowerPoint Slides: 6-14

Section 3.3 describes the external environment, which consists of the task and general environments. The task environment consists of customers, competitors, suppliers, distributors, strategic allies, employee associations, local communities, financial institutions, government regulators, special-interest groups, and the mass media. The general environment consists of economic, technological, sociocultural, demographic, political-legal, and international forces.

One way that you could begin your coverage of these topics is to have the students watch the video "[A Stakeholders' Strike](#)." This 9-minute video from the *New York Times* demonstrates the power that customers can have over a business by profiling the

customer boycott at the Market Basket grocery store chain which successfully brought about a change in upper management. For a supplemental activity, you can have the students analyze the reasons why the customer boycott was successful at Market Basket and explore the role of social media in increasing the bargaining power of customers.

### **Possible Topics for Discussion:**

- Discuss the elements of the task environment that are most likely to impact your academic institution over the next 5 to 10 years. How could your school best deal with those challenges?
- Discuss how the forces in the general environment will impact over the next 5-10 years your current employer or a company for which you want to work after graduation.
- Discuss how companies can best harness the power of social media to keep abreast of trends in the external environment.

### **Section 3.3 Key Concepts:**

#### **External Stakeholders**

- The **external stakeholders** are people or groups in the organization's external environment that are affected by it.
- This environment consists of the task environment and the general environment.

#### **Task Environment**

- The **task environment** consists of eleven groups that present you with daily tasks to handle.
- **Customers** are those who pay to use an organization's goods or services.
- **Competitors** are people or organizations that compete for customers or resources, such as talented employees or raw materials.
- A **supplier** is a person or organization that provides supplies—raw materials, services, equipment, labor, or energy—to other organizations.

#### **Interactive Classroom Material:**

#### **EXAMPLE: Amazon's Jeff Bezos Obsesses about a Great Customer Experience, but Is it at the Expense of Other Stakeholders' Wellbeing?**

This Example demonstrates how Amazon is focusing on one particular stakeholder—the customer, at the possible expense of other stakeholders. Amazon's CEO believes that customers should have a vast selection of products, low prices, and the ability to receive their orders fast. Amazon tries to have a simple platform to accommodate one-click shopping, easy returns, free-shipping, and of course, low prices. Some suppliers, on the other hand, are frustrated as they feel squeezed. Amazon employees complain about severe workplace rules and publishers/book sellers are worried about the loss of readers to e-books.

- A **distributor** is a person or organization that helps another organization sell its goods and services to customers.
  - In some industries there is little competition, and the distributor has a lot of power over the price of the product.
  - The Internet has allowed some manufacturers to cut out the middleman and sell directly to customers.
- The term **strategic allies** describes the relationship of two organizations that join forces to achieve advantages neither can perform as well alone.
- Employee organizations such as unions and associations represent another external stakeholder.
- Local communities are important stakeholders since they often rely on companies for jobs, contributions to the tax base, and/or financial support.
  - Many cities offer incentives to attract employers.
  - If a community gives a company tax breaks in return for the promise of new jobs and the firm fails to do so, the community might use **clawbacks** to rescind the tax breaks.

#### Interactive Classroom Material:

#### **EXAMPLE: Local Communities as Stakeholders: Are Financial Incentives to Sports Teams & Other Business Really Necessary?**

States have introduced tax incentives to poach movie production business from California in order to reap the economic benefits that come with film companies. This, and other incentives for different industries, often becomes a problem for local communities. Mayors and governors, who are desperate to create jobs, are outmatched by multinational corporations, and short on tools to fact-check what companies tell them.

- Financial institutions are another stakeholder.
  - Financial institutions such banks, savings and loans, and credit unions provide capital to new ventures.
  - **Venture capital** is money provided by investors (i.e., venture capitalists) to startup firms and small businesses with high risk but perceived long-term growth potential, in return for an ownership stake.
  - **Crowdfunding**, or crowdsourcing, is raising money for a project or venture by obtaining many small amounts from many people (“the crowd”).
  - Established companies also need loans, but they rely on lenders such as commercial banks, investment banks, and insurance companies.

- **Government regulators** are regulatory agencies that establish ground rules under which organizations may operate.
  - Many agencies, boards, and commissions have the legal authority to prescribe or proscribe the conditions under which you may conduct business.
  - Such regulators are stakeholders because they affect the activities of the organization and are in turn affected by it.
- **Special-interest groups** are groups whose members try to influence specific issues, and they are an important stakeholder.
  - These groups may try to exert political influence, or they may organize picketing and boycotts—holding back their patronage—of certain companies.
  - People for the Ethical Treatment of Animals (PETA) is an example of a special-interest group.
- Mass media is an important stakeholder because it has tremendous power to rapidly and widely disseminate news both good and bad.

#### Interactive Classroom Material:

#### **EXAMPLE: Managing the Media: What's the Best Practice for Handling Product Recalls?**

This Example profiles the Chevrolet Cobalt automobile recall by General Motors. The company's CEO, Mary Barra, was forced to handle a public relations disaster. Barra ordered an internal investigation to find out why GM failed to fix a safety defect for more than a decade.

#### The General Environment

- The **general environment**, or **macroenvironment**, includes six forces: economic, technological, sociocultural, demographic, political-legal, and international.
- **Economic forces** consist of general economic conditions and trends—unemployment, inflation, interest rates, and economic growth—that may affect an organization's performance.
- **Technological forces** are new developments in methods for transforming resources into goods or services, for example, biotechnology.

### Interactive Classroom Material:

#### EXAMPLE: [Technology Changes Everything](#)

This Example describes technology's disruption of not only the service industry, but the world's access to knowledge as well. Computerization is already changing manufacturing, but interestingly, it is beginning to change medicine as well, such as with gene modification. Mobile devices are also changing communication and social skills.

- **Sociocultural forces** are influences and trends originating in a country's, a society's, or a culture's human relationships and values which may affect an organization.
- **Demographic forces** are influences on an organization arising from changes in the characteristics of a population, such as age, gender, ethnic origin, sexual orientation, occupation, income family size, and the like.
- **Political-legal forces** are changes in the way politics shape laws and how those laws affect organizations.
  - Some countries have more fully developed legal systems than others.
  - American companies may be more willing to advance their interests in using the legal system, as in suing competitors.
- **International forces** are changes in the economic, political, legal, and technological global system that may affect an organization.

### Interactive Classroom Material:

#### CLICK AND DRAG: The Organization's Environment

##### Summary of Activity:

An organization's stakeholders are those people whose interests are potentially affected by an organization's activities. In this click and drag activity, students will drag each component of an organization's environment to the appropriate area on a provided chart.

##### Follow-Up Activity:

Instructor should divide students into small groups. Each group is tasked with discussing the role of internal and external stakeholders. Groups should choose three stakeholders and discuss how their role affects AmbCo Skincare Products activities. These findings should be shared with the rest of the class and open for wider discussion.

## 3.4 The Ethical Responsibilities Required of You as a Manager

What does the successful manager need to know about ethics and values?

PowerPoint Slides: 15-25

Section 3.4 discusses what constitutes ethics and values. There are four approaches to deciding ethical dilemmas: the utilitarian approach, the individual approach, the moral-rights approach, and the justice approach. To promote ethics, an organization can create a strong ethical climate, screen prospective employees, have a code of ethics, use ethics training programs, and reward ethical behavior.

One way that you could begin your coverage of these topics is to have the students watch the video "[Small Nudges Can Create Ethical Behavior](#)." In this 11-minute video, Dr. Sreedhari Desai describes three nudges that have been shown to reduce unethical behavior in the workplace: infusing accountability, displaying moral symbols, and using reminders of childhood. For a supplemental activity, you could have the students describe examples of these nudges that they have observed at their current or previous employer and have them evaluate the extent to which they believe that these ethical nudges are successful.



### Possible Topics for Discussion:

- Describe the three most significant ethical dilemmas you face at your company (or faced at a previous employer).
- Describe action steps that your academic institution should take to improve its ethics.
- Assume that one of your colleagues has agreed to sell you a copy of all the exam questions for your next exam in this course. Apply the four approaches to deciding ethical dilemmas to determine if it would be ethical for you to buy the questions and use them to study for the exam.

### Section 3.4 Key Concepts:

#### Ethics and Values

- An **ethical dilemma** is a situation in which you have to decide whether to pursue a course of action that may benefit you or your organization but that is unethical or even illegal.
- **Ethics** are the standards of right and wrong that influence behavior, standards which may vary between countries and between cultures.
- **Ethical behavior** is behavior that is accepted as "right" as opposed to "wrong" according to ethical standards.



- Ethical dilemmas often develop because of an organization's **value system**, the pattern of values within the organization.
- **Values** are the relatively permanent and deeply held underlying beliefs and attitudes that help determine a person's behavior.
- Values and value systems are the foundations for ethics and ethical behavior.
- Organizations may have two important value systems that can conflict: the value system stressing financial performance versus the value system stressing cohesion and solidarity in employee relationships.

### **Interactive Classroom Material:**

**CASE ANALYSIS:** Ethical Dilemma: Should Facebook Take a More Proactive Approach in Monitoring the Children's Online Privacy Protection Act?

#### **Summary of Activity:**

In this case analysis, students will read about Facebook, and its challenge in taking a more proactive approach in protecting children based on the Children's Online Privacy Protection Act. After reading the case, students will respond to five multiple-choice questions.

#### **Follow-Up Activity:**

Students should be divided into small groups of five. First, students should discuss the dilemma of social media platforms such as Facebook. Next, students should discuss if organizations such as Facebook, Twitter, etc. are ethically obligated to be morally responsible? Has Facebook taken action to be both ethically and legally responsible? Students should explain why or why not. Differences in opinions should be shared with the class.

### **Four Approaches to Deciding Ethical Dilemmas.**

- The **utilitarian approach** is guided by what will result in the greatest good for the greatest number of people.
  - Managers often use financial performance as the best definition of what constitutes "the greatest good."
  - While this may be good for the bottom line, it may also result in damage to workforce morale and the loss of experienced employees.
- The **individual approach** is guided by what will result in the individual's best long-term interests, which ultimately is considered in everyone's self-interest.
  - You will act ethically in the short run to avoid others harming you in the long run.
  - However, one person's short-term self-gain may not be good for everyone in the long term.

- The **moral-rights approach** is guided by respect for the fundamental rights of human beings.
  - Problems occur when rights are in conflict, such as employer and employee rights.
  - The justice approach: respecting impartial standards of fairness.
- The **justice approach** is guided by respect for impartial standards of fairness and equity.
  - One consideration is whether an organization's policies are administered impartially and fairly.
  - The gap between a CEO's pay and the pay of average workers is seen as an issue of fairness.

### Group Exercise: [Solving an Ethical Dilemma](#)

There is a group exercise available at the end of this manual that applies the four approaches to studying ethical dilemmas.

#### Exercise Objective

- To further students' understanding regarding the four approaches to deciding ethical dilemmas.

### White-Collar Crime

- At the beginning of the 21st century, U.S. business was rocked by an array of scandals like Enron and WorldCom, followed by insider trading and Ponzi scheme scandals.
- **Insider trading** is the illegal trading of a company's stock by people using confidential company information.
- A **Ponzi scheme** is when cash from newer investors is used to pay off old ones.
- Public outrage over executives' actions led to Congress passing the **Sarbanes-Oxley Act of 2002 (SarbOx or SOX)**.

### Sarbanes-Oxley Act of 2002

- The **Sarbanes-Oxley Act of 2002** established requirements for proper financial record keeping for public companies and penalties of as much as 25 years in prison for noncompliance.
- SarbOx requires a company's chief executive officer and chief financial officer to personally certify the organization's financial reports, among other requirements.
- It also requires the company to have established procedures and guidelines for audit committees.

### The Work of Laurence Kohlberg

- Psychologist Laurence Kohlberg has proposed three levels of personal moral development.
  - Level 1, preconventional—people at this level tend to follow rules and to obey authority; managers tend to expect obedience for obedience's sake.
  - Level 2, conventional—people at this level are conformist, generally following others' expectations; managers lead by encouragement and cooperation.
  - Level 3, postconventional—people at this level are independent and follow their own values and standards.
- Most managers are at Level 2 of moral development. Only about a fifth of American managers reach Level 3.

### How Organizations Can Promote Ethics

- An organization may promote high ethical standards on the job by creating a strong ethical climate, by screening prospective employees, by instituting ethics codes and training programs, and by rewarding ethical behavior by protecting whistle-blowers.
- An **ethical climate** represents employees' perceptions about the extent to which work environments support ethical behavior.
  - Managers can promote ethical climates through the policies, procedures, and practices that are used on a daily basis.
- Companies can try to screen out dishonest employees by checking references, using E-Verify (illegal immigrant check), and using personality and integrity testing.
- A **code of ethics** consists of a formal written set of ethical standards guiding an organization's actions.
  - The purpose of a code of ethics is to clearly state top management's expectations for all employees.
- A **whistle-blower** is an employee, or even an outside consultant, who reports organizational misconduct to the public.

### **Interactive Classroom Material:**

#### **CLICK AND DRAG:** How Organizations Can Promote Ethics

#### **Summary of Activity:**

Ethics are the standards of right and wrong that influence behavior, and ethical behavior is the accepted or “right” way to behave according to those standards. Managers will often have to choose between courses of action that will promote either economic performance or social performance. In this click and drag exercise, students will review scenarios from a fictional organization and match them with appropriate ways companies can promote ethical behavior.

#### **Follow-Up Activity:**

Instructor should divide students into small groups. Groups should discuss how organizations can best promote ethics. In what ways does Riverview Manufacturing continue to build and promote a greater ethics oriented culture? Groups should be called upon to share their discussions with the class. Students should be encouraged to share from their own personal experiences.

## **SELF-ASSESSMENT 3.1**

### **Assessing My Perspective on Ethics**

This 10-question self-assessment helps to measure students’ ethical ideology. Questions on risks, harm, moral standards, and “rightness” are presented.

## **3.5 The Social Responsibilities Required of You as a Manager**

Is being socially responsible really necessary?

PowerPoint Slides: 26-30

Section 3.5 discusses corporate social responsibility, including an organization’s economic, legal, ethical, and philanthropic responsibilities. Social responsibility also includes climate change, sustainability, and natural capital. There are differing views as to whether corporate social responsibility is worthwhile, but research does show positive impacts on sales, employees’ work efforts, stock prices, profits, and other measures.

One way that you could begin your coverage of these topics is to have the students read the *Harvard Business Review* article “The Truth about CSR.” This article provides recommendations for how firms can make their corporate social responsibility programs

more strategic. For a supplemental activity, you could have the students provide recommendations for how their employer or a previous one could develop a coherent CSR strategy.

Article Citation:

Rangan, K., Chase, L., & Karim, S. (2015). The truth about CSR. *Harvard Business Review*, 93(1) 40-49.

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### **Possible Topics for Discussion:**

- Summarize the benefits to firms of displaying ethical behavior and high social responsibility.
- Assume you want to learn more about a firm's corporate social responsibility prior to accepting a job offer. How would you go about determining if the firm's CSR is consistent with your values?
- Evaluate the extent to which you are willing to buy more and pay more for goods and services from companies that are socially responsible than from those that are not. Provide examples of times when a firm's CSR reputation influenced your purchasing decisions.

### **Section 3.5 Key Concepts:**

#### **Corporate Social Responsibility**

- **Social responsibility** is a manager's duty to take actions that will benefit the interests of society as well as of the organization.
- **Corporate social responsibility (CSR)** is the notion that corporations are expected to go above and beyond following the law and making a profit.

#### **Carroll's Global Corporate Social Responsibility Pyramid**

- Archie Carroll developed a global corporate social responsibility pyramid, with the levels economic, legal, ethical, and philanthropic.
- Figure 3.2 describes the levels in the pyramid.
- Carroll suggests that the priorities of the organization should be to:
  - Be a good global corporate citizen, as defined by the host country's expectations.
  - Be ethical in its practices, taking host-country and global standards into consideration.
  - Obey the law of host countries as well as international law.
  - Make a profit consistent with expectations for international business.

### **Interactive Classroom Material:**

#### **CLICK AND DRAG:** Carroll's Corporate Social Responsibility

#### **Summary of Activity:**

Corporate social responsibility is to an organization what ethical responsibility is to being a good individual citizen. In this two-part click and drag exercise based on a fictitious organization, students will first match the various descriptions of corporate social responsibility into the corresponding area of Carroll's Corporate Social Responsibility Pyramid. Then, students will read descriptions of fictitious socially responsible manager behavior, and match that with the corresponding area of Carroll's Corporate Social Responsibility Pyramid.

#### **Follow-Up Activity:**

Instructor should divide students into small groups. First, groups should discuss how Beckmart engages in Corporate Social Responsibility. Is it possible to be a good corporate citizen, obey the laws, and be ethical and profitable at the same time? Next, the groups should focus on what obstacles might prevent Beckmart's espoused values from being met. The floor should be opened for further discussion with the rest of the class.

### **Is Social Responsibility Worthwhile? Opposing and Supporting Viewpoints**

- Economist Milton Friedman argued that the only social responsibility of businesses is to maximize profits; otherwise they will become distracted and fail to achieve their goals.
- In contrast, economist Paul Samuelson argued that a company must be concerned for society's welfare, as well as for corporate profits.
- Those who support corporate social responsibility would argue:
  - Since businesses create problems, they should help solve them.
  - Businesses often have the resources to solve problems in ways that the nonprofit sector does not.
  - Being socially responsible gives businesses a favorable public image that can help head off government regulation.

### Interactive Classroom Material:

#### **EXAMPLE: [Corporate Social Responsibility: Salesforce.com Wants to Change the Way the World Works](#)**

This Example profiles how Salesforce has adopted Business Conduct Principles and a Code of Conduct that supports ethical business practices, anticorruption, antidiscrimination, and rejects forced or involuntary labor. The organization also has a foundation that donates 1 percent of the company's resources, 1 percent of employees' time, and 1 percent of the firm's technology to improve communities worldwide. The company also strives to reduce carbon emissions and focuses on fostering employee success.

### One Type of Social Responsibility: Climate Change, Sustainability, & Natural Capital

- **Climate change** refers to major changes in temperature, precipitation, wind patterns, and similar matters occurring over several decades.
- **Global warming** refers to the rise in global average temperature near the Earth's surface, caused mostly by increasing concentrations in the atmosphere of greenhouse gases, such as carbon emissions from fossil fuels.
- Today, going green has entered the business mainstream, where sustainability programs are producing not only environmental benefits but also cost savings, revenue growth, and competitive advantages.
- **Natural capital** is the value of natural resources, such as topsoil, air, water, and genetic diversity, which humans depend on.
- We are approaching the planet's limitations, with human activity threatening to exceed the earth's capacity to generate resources and absorb wastes.

### Another Type of Social Responsibility: Philanthropy, "Not Dying Rich"

- **Philanthropy** is making charitable donations to benefit humankind.
- Several wealthy individuals, such as Bill Gates and Mark Zuckerberg, have signed the Giving Pledge, a commitment to dedicate a majority of their wealth to philanthropy.
- Not only do wealthy individuals and companies practice philanthropy, ordinary individuals do so as well.

### How Does Being Good Pay Off?

- Research shows consumers are more apt to buy from companies that are socially responsible, and are willing to pay extra for products and services from companies that give back to society.
- When managers exhibit **ethical leadership**, that is leadership that is directed by respect for ethical beliefs and values for the dignity and rights of others,

employees report higher levels of organizational commitment, job satisfaction, trust in the leader, and motivation.

- Employees are more willing to display citizenship behavior and to produce higher task performance when their managers exhibit ethical leadership.
- News of a company's illegal activity diminishes a company's sales growth for several years.
- In one study, employees who rarely saw honesty applied in their firms observed more misconduct than did employees who saw honesty applied occasionally or frequently.
- Unethical behavior in the form of employee fraud costs the typical organization 5 percent of its revenues each year, which translates to worldwide fraud loss of \$3.7 trillion.
- Research found that following fraud or financial restatement, companies on average lose more than a quarter of their stock value.
- Studies suggest that profitability is enhanced by a reputation for honesty and corporate citizenship.

### **Interactive Classroom Material:**

#### **CASE ANALYSIS: IKEA's Corporate-Social Responsibility**

##### **Summary of Activity:**

In this case analysis, students will first read about IKEA's commitment to corporate social responsibility, especially when it comes to fighting child labor, before responding to four multiple choice questions.

##### **Follow-Up Activity:**

Instructor should divide students into small groups of four. Groups should first identify Corporate Social Responsibility (CSR) in IKEA. Next, they should discuss how CSR affects internal and external stakeholders. Key group discussions should be shared with the class. Instructor may close out the activity by asking students to identify similar or differing CSR within organizations.

## **SELF-ASSESSMENT 3.2**

### **Assessing Your Attitudes toward Corporate Social Responsibility**

This 10-question self-assessment helps to determine students' attitudes toward corporate social responsibility. Questions on moral standards, ethical considerations, and business survival are presented.

## **3.6 Corporate Governance**

How can I trust a company is doing the right thing?



PowerPoint Slides: 31-32

Section 3.6 discusses corporate governance. Corporate governance is the system of governing a company so that the interests of corporate owners and other stakeholders are protected. Company directors should be clearly separated in their authority from the CEO by insisting on strong financial reporting systems and more accountability.

One way that you could begin your coverage of these topics is to have the students read the *Harvard Business Review* article "Corporate Governance 2.0." This article provides recommendations on how to improve corporate governance. For a supplemental activity, you could have the students discuss how managing a company for the long term would improve corporate governance and describe how companies could improve the performance of their board of directors.

Article Citation:

Subramanian, G. (2015). Corporate governance 2.0. *Harvard Business Review*, 93(3), 96-105.

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#### **Possible Topics for Discussion:**

- Discuss reasons why corporate governance systems often fail.
- Propose action steps that firms could take to ensure that boards of directors have incentives to act ethically.
- Think of a company that you trust. Describe the reasons why you trust the managers of that firm to act ethically.

#### **Section 3.6 Key Concepts:**

##### **Corporate Governance**

- **Corporate governance** is the system of governing a company so that the interests of corporate owners and other stakeholders are protected.
- A key corporate governance challenge is to ensure that boards of directors be chosen to act ethically.
- Outside directors, which are supposed to be elected from outside the firm, may still be handpicked by the CEO, making it hard for them to remain independent.
- More attention is being paid to strengthening corporate governance so that directors are clearly separated in their authority from the CEO.

#### **Interactive Classroom Material:**

##### **[EXAMPLE: Corporate Governance: Chesapeake Energy's CEO Gets Some Unusual Breaks from His Board of Directors](#)**

This Example profiles the corporate governance failures of Chesapeake Energy. At one time, Aubrey K. McClendon, the company's CEO, was one of the highest-paid

chief executives. McClendon went through some personal finance difficulties as a result of falling oil prices and loss of stock value. His handpicked board of directors gave him a substantial pay package, and they even had the company purchase his personal collection of maps. Moreover, he was provided personal jet and accounting expenses, as well as sponsorship of an NBA team he partially owned. Shareholders sued, and the company was forced to renegotiate the entire package and implement corporate reforms. The CEO resigned amid multiple government investigations into the entire matter. McClendon was later indicted on charges, but he died in a single-car crash the next day.

### **The Need for Trust**

- Employees, customers, and other stakeholders must have trust in the company.
- Trust is demonstrated through:
  - How likely the people you're dealing with are to serve your interests.
  - How much they have demonstrated concern for others.
  - How well they delivered on their promises.
  - How much they try to keep their word.
  - How effectively they communicate these skills.

## CHALLENGE: MAJOR QUESTIONS

### 3.1 Is profit the only important goal of a business? What are others?

*Profit is not the only important goal of a business. "People" are an important goal of business as well. This includes an organization's responsibility to its employees and to the wider community. "Planet" is also another important goal of a business. This includes a commitment to sustainable environmental practices. These other goals are measured through a social audit, which is a systematic assessment of a company's performance in implementing socially responsible programs, often based on predefined goals.*

### 3.2 Stockholders are only one group of stakeholders. Who are the stakeholders important to me inside the organization?

*Other than stockholders, other important stakeholders in the organization's internal layer are employees (including managers), owners (other than stockholders), and boards of directors.*

### 3.3 Who are the stakeholders important to me outside the organization?

*Stakeholders outside the organization include customers, competitors, suppliers, distributors, strategic allies, unions and associations, local communities, financial institutions, government regulators, special-interest groups, and the mass media. These external stakeholders can be impacted by forces in the general environment, including economic, technological, sociocultural, demographic, political-legal, and international forces.*

### 3.4 What does the successful manager need to know about ethics and values?

*A successful manager needs to know what constitutes ethics and values. In other words, managers need to know what is "right" and what is "wrong" in the organization and society as a whole. Organizations may have two important value systems that can conflict: (1) the value system stressing financial performance versus (2) the value system stressing cohesion and solidarity in employee relationships. A successful manager is able to properly balance these value systems. A successful manager also knows how to deal with ethical dilemmas and will take steps to help promote ethics at the organization.*

### 3.5 Is being socially responsible really necessary?

*There are two viewpoints on corporate social responsibility. Some believe that a company's social responsibility is to make profit for its shareholders; others believe that businesses create problems in this world and should assist in solving them, especially since they usually have the financial means to do so. The latter view also believes that being socially responsible helps an organization's image. Lastly, research has shown that being ethical and highly socially responsible has a*

*positive effect on customers, employees, revenue, and stock price, amongst other indicators.*

### **3.6 How can I trust a company is doing the right thing?**

*A strong corporate governance system is how you can trust that a company is doing the right thing. With corporate governance, it is important for a company's board of directors to be independent of its day-to-day operating executives, such as the CEO. There should be a strong insistence on clear financial reporting systems and accountability of independent parties, such as the board of directors. Overall, trust comes from asking how likely the people you're dealing with in a company are to serve your interests, how much they have demonstrated concern for others, how well they delivered on their promises, how much they try to keep their word, and how effectively they communicate these skills.*

## MANAGEMENT IN ACTION: Blue Bell Is Accused of 'Recall Creep' in Its Handling of Ice Cream Contamination

1. How did Blue Bell's response to the contamination at its plants impact the triple bottom line?

*The triple bottom line—representing People, Planet, and Profit (the 3 Ps)—measures an organization's social, environmental, and financial performance. Here, Blue Bell seems to have failed at all three. The organization first learned about the problems in South Carolina in 2015, but simply retrieved 10 products and did not make any mention to consumers. The problem continued to grow, and it was found that poor manufacturing processes most likely led to the contamination. As production was more important than cleanliness, even after repeated FDA warnings, the organization did not address the issue. Financially, the organization suffered and had to let go of over 37 percent of its workforce through layoffs and furloughs. It also had to secure a loan of up to \$125 million from Texas billionaire Sid Bass.*

2. Which of Blue Bell's internal and external stakeholders were positively and negatively affected by the contamination crisis? Be specific.

*Internal stakeholders: Employees were negatively affected as they worked in poor sanitary conditions, and many were let go. Owners were also negatively affected as the company imploded financially.*

*External: Customers suffered as some became ill and others even died. The government also had to expend resources for continued regulation, so this was a negative as well. One external stakeholder that this was positive for was competitors.*

3. Which of the six general environmental forces influenced the manner in which Blue Bell responded to this crisis?

*Sociocultural forces were the main forces to influence Blue Bell's response. A bad reputation and government fines would surely affect the organization; so it first tried not to mention anything after South Carolina, but were then forced to bring it up.*

4. To what extent did Blue Bell respond ethically to the contamination problem? Explain.

*Blue Bell did not ethically respond to the South Carolina incident. It did not mention anything to consumers and did not do a thorough investigation of the matter in order to protect customers and the community in other states, such as Kansas. If it had addressed the issue earlier, those deaths may not have occurred. Moreover, the organization surely did not act ethically in its manufacturing process and failed to address regulators' concerns.*

5. To what extent was Blue Bell's approach toward the contamination problem consistent with the four approaches to deciding ethical dilemmas? Explain.

*Blue Bell's approach was more closely consistent with the utilitarian approach. Ethical behavior in the utilitarian approach is guided by what will result in the greatest good for the greatest number of people. Managers often take the utilitarian approach, using financial performance—such as efficiency and profit—as the best definition of what constitutes “the greatest good for the greatest numbers.” The organization let go of 37 percent of its workforce so that the remaining 63 percent could continue to be employed.*

6. Evaluate Blue Bell's approach to solving this crisis against Carroll's model of social responsibility shown in Figure 3.2.

*Blue Bell barely made it to legal responsibility. It was of course trying to be profitable and never slow production, and it sacrificed other important concepts, like sanitation for profitability. And when it came to legality, the FDA noted that Blue Bell did not follow up “to identify sanitation failures and possible food contamination, taken proper steps to root out the problem, or informed the agency of its findings” even after it had filed a report finding bacteria.*

## LEGAL/ETHICAL CHALLENGE

### Should You Apply to Have Your Student Loans Forgiven?

The Borrower Defense program allows for "...forgiveness of existing debt—and, possibly, reimbursement of any repaid loans—if [students] can show their school violated state law in getting them to take out the debt." An example might be if a school lied in its advertisements about how many of its graduates landed jobs. If you graduated from a state university, got great grades, and interned, but never got that dream job because you actually needed to go to graduate school, should you apply for this Borrower Defense program?

#### Solving the Challenge:

- 1. Apply for loan forgiveness and hope that the broad language of the law will make an exception for your state college education and loan. Besides, what's wrong with asking?**

*If the statute has a fraudulent claim clause, which would say something in the lines of you "cannot file a claim if it is reasonably impossible for your situation to fit the intent of the law," then you may not want to file a claim in this situation because the school does not seem to have violated state law. However, if there is no fraudulent claim clause, it may be worth a shot!*

- 2. Apply for loan forgiveness. After all, you aren't benefitting from your education; someone should have told you that you needed a graduate degree in psychology to get a good job; and there is no clear definition of fraud.**

*Not being told that psychology positions require graduate degrees does not violate state law and is not false advertising. Another point to keep in mind is that in order to earn a graduate degree in psychology you would have most likely needed the undergraduate degree anyway. However, if you were lied to and shown "facts" that individuals with an undergraduate psychology degree earned jobs in the field, this may be a different story. It is important to also see if there is further language in the law that states what the burden of proof is (i.e., clear and convincing evidence, beyond a reasonable doubt, etc.).*

- 3. Don't apply. You were never promised a job, and you made the decision to major in psychology. You could have chosen a field with more job opportunities.**

*This seems to be the most accurate. The law seems to be there to assist those who were lied to in advertisements, academic advising, or career counseling through the university. This seems to have happened at quite a few private (for-profit) institutions. The law does not seem to cover those that did not research their field of study and its requirements.*

- 4. Invent other options. Discuss.**

*Students may come up with creative interpretations of the law.*

## TEXTBOOK EXAMPLES

### **EXAMPLE: Who Should Be a Company's Most Important Stakeholders? Natural Gas Utility PG&E Pays a Huge Price**

This Example describes an explosion at the Pacific Gas & Electric (PG&E) pipeline in San Bruno, California. PG&E had relied on inaccurate surveys, and the company's internal processes actually encouraged the drafting of these inaccurate surveys. Moreover, an independent audit found that over an 11-year period, PG&E collected \$430 million more from its gas operations than the government had authorized. The utility was ordered to pay a record \$1.6 billion in state penalties and other costs and settled 165 lawsuits with residents' and victims' families for \$565 million. It was also indicted on 12 criminal counts for repeatedly violating the federal Pipeline Safety Act.

#### **YOUR CALL**

**Is a company principally responsible only to its stockholders and executives? Or are other groups equal in significance? Further, is it sufficient that a company simply be legal, as PG&E believes it was? Or, isn't it equally important that it be ethical as well?**

*PG&E may have significant responsibility to stockholders and executives, but there are other stakeholders, such as employees, customers, and the community, to which it owes a special responsibility as well. An organization is answerable to many stakeholders, and the significance of which stakeholders it is responsible to is also dependent on its activities. Here, you have gas and electric lines, which means safety for employees, and the community is also extremely important. Acting in accordance with the law is paramount, but not sufficient. Organizations have a special duty to act ethically, especially in terms of the stakeholders mentioned.*

#### **Additional Activities:**

One way to build on this Example is to have the students read the *San Francisco Chronicle* article "[How the San Bruno Trial Could Help PG&E](#)." This article from June 20, 2016 analyzes how the PG&E's criminal trial could impact customers and shareholders of the firm. Consider using the following discussion questions:

Discuss how PG&E's criminal trial could positively impact the organization's stockholders.

Discuss how PG&E's criminal trial could negatively impact the organization's customers.

Discuss actions that PG&E could take to place more emphasis on the organization's triple bottom line.



### **EXAMPLE: Amazon's Jeff Bezos Obsesses about a Great Customer Experience, but Is it at the Expense of Other Stakeholders' Wellbeing?**

This Example demonstrates how Amazon is focusing on one particular stakeholder—the customer, at the possible expense of other stakeholders. Amazon's CEO believes that customers should have a vast selection of products, low prices, and the ability to receive their orders fast. Amazon tries to have a simple platform to accommodate one-click shopping, easy returns, free-shipping, and of course, low prices. Some suppliers, on the other hand, are frustrated as they feel squeezed. Amazon employees complain about severe workplace rules, and publishers/book sellers are worried about the loss of readers to e-books.

#### **YOUR CALL**

**Does it matter to you how harshly a company treats other stakeholders as long as it handles its customer relations well? To what extent are Amazon's policies consistent with the triple bottom line?**

*Though the motto of "the customer is always right" still stands as a beacon of outstanding customer service, how can an organization maintain a competitive advantage when other stakeholders, such as suppliers and employees, begin feeling disenfranchised? As a customer, this may not make a big difference to you, but as a manager, these are issues that deserve a lot of attention.*

*Amazon's policies seem to be inconsistent with the "People" portion of the triple bottom line. "People" does not simply include providing low prices to customers, but also includes the proper management of other stakeholders, such as employees and suppliers. Too much focus on the customer does not always lead to a profit, which is the third principle of the triple bottom line. Instead, there may be short-term profits but long-term harm when other stakeholders are forgotten.*

#### **Additional Activities:**

One way to build on this Example is to have the students read the *Fortune* online article "[Amazon Invades India](#)." The article profiles the strategic actions taken by Amazon to be successful in the emerging market of India. Consider using the following discussion questions:

Discuss how the elements of the task and general environment will create opportunities and challenges for Amazon in India.

Amazon has shown little profit over the years and yet is beloved by investors. Discuss the reasons why this is true.

Discuss elements of Amazon's task and general environments that will create strategic challenges for the firm over the next 5-10 years, both domestically and internationally.

### **EXAMPLE: Local Communities as Stakeholders: Are Financial Incentives to**

## **Sports Teams & Other Business Really Necessary?**

States have introduced tax incentives to poach movie production business from California in order to reap the economic benefits that come with film companies. This, and other incentives for different industries, often becomes a problem for local communities. Mayors and governors, who are desperate to create jobs, are outmatched by multinational corporations, and short on tools to fact-check what companies tell them.

### **YOUR CALL**

**How would you advise local public officials to handle the whole matter of tax incentives for business—especially if they are across the table from shrewd negotiators representing a huge company such as Apple or General Electric? What obligations should a community expect of the companies located there?**

*Local public officials who are negotiating across the table from conglomerates should implement clawbacks whenever possible. This would cause the rescinding of the tax breaks when firms do not deliver the promised jobs, or otherwise do not perform their stated expectations. Companies who are receiving incentives from the local community should be delivering financial support to the community in the form of jobs, tax bases, etc. Organizations should be fact-checked before an agreement for tax incentives is in place, and strictly held to the standard described above.*

### **Additional Activities:**

One way to build on this Example is to have the students watch the *CBS Sunday Morning* segment "[Hollywood Goes on the Road](#)." This 7-minute video discusses how government incentives are playing a key role in where a movie gets made. Consider using the following discussion questions:

Assume you are a resident of one of the 40 states that offer incentives to movie companies. As a taxpayer, what are your feelings on what could be considered "your money" being used to underwrite the costs of film producing?

Discuss the advantages and disadvantages of states using tax breaks, rebates, and/or grants to entice film makers to your state. Who are the winners and losers of such a program?

How could Los Angeles accurately calculate a return on investment for any incentives offered to film producers to produce in Hollywood? What are the difficulties of calculating such a figure?

### **EXAMPLE: Managing the Media: What's the Best Practice for Handling Product Recalls?**

This Example profiles the Chevrolet Cobalt automobile recall by General Motors. The company's CEO, Mary Barra, was forced to handle a public relations disaster. Barra ordered an internal investigation to find out why GM failed to fix a safety defect for more than a decade.

#### **YOUR CALL**

**For GM, "Mary Barra seems to fully embody the position of the CEO who is sorry," says Business Ethics Professor Amy Sepinwall. "She recognizes that she has to pass on the [corporation's] deepest regrets, and I think she's been pretty convincing on that score." Do you agree? What else should she have done?**

*How convincing Barra has been is up for interpretation, but there may not be a clear answer here. She has followed many of the gold-standard principles for crisis management, such as meeting with families, opening an internal investigation, communicating with regulators, etc. Nevertheless, Barra could have shaken up the executive team that should have brought this to the attention of stakeholders many years before. She could have also used less scripted wording when communicating with public officials. Lastly, she should put procedures in place that will allow for a quicker recall issuance if something similar happens in the future.*

#### **Additional Activities:**

One way to build on this Example is to have the students read the *Fortune* online article "[Nestlé's Half-Billion-Dollar Noodle Debacle in India](#)" and watch the corresponding 4-minute video. This article profiles the issues in Nestlé's handling of its product recall of Maggi 2-Minute Noodles in India over concerns about lead and MSG levels. Consider using the following discussion questions:

Discuss the role of the mass media in the Maggi crisis. How should Nestlé have dealt with the media during this crisis?

Do you support Nestlé's decision to destroy all the noodles at the heart of the issue? Support your point of view.

Provide recommendations for Nestlé on how to effectively use social media to try to restore the brand's image in the minds of consumers.

Discuss long-term challenges for Nestlé in dealing with its internal and external stakeholders as a result of this crisis.

### **EXAMPLE: Technology Changes Everything**

This Example describes technology's disruption of not only the service industry, but the world's access to knowledge as well. Computerization is already changing manufacturing, but interestingly, it is beginning to change medicine as well, such as with gene modification. Mobile devices are also changing communication and social skills.

### **YOUR CALL**

**Which technological change do you think is apt to affect you personally during the next decade? What kind of strategies for change will managers have to adopt?**

*Student answers may vary. Technology is causing drastic changes in medicine, travel, communication, and even the legal world, amongst other areas. Managers will have to be open to change, and understand both the advantages and disadvantages of a technology-run world. Moreover, change continues to create competitive advantages in not only the aforementioned industries, but most every business.*

### **Additional Activities:**

One way to build on this Example is to have the students watch the video "[Is Tech Making Us Dumb?](#)" This 4-minute video from a local news channel describes some of the skills that are negatively impacted by our reliance on technology. Consider using the following discussion questions:

Describe the ways you believe that your social skills may be impacted, both positively and negatively, by your smartphone and social media usage.

Assume that you are a manager, and you want to make your employees more comfortable with face-to-face networking with people they don't know. Discuss how you could improve your employees' social interaction skills.

Describe, using specific examples, the types of skills profiled in the video that may be negatively impacted by technology. Would you add other skills to this list? Explain your point of view.



### **EXAMPLE: Corporate Social Responsibility: Salesforce.com Wants to Change the Way the World Works**

This Example profiles how Salesforce has adopted Business Conduct Principles and a Code of Conduct that supports ethical business practices, anticorruption, antidiscrimination, and rejects forced or involuntary labor. The organization also has a foundation that donates 1 percent of the company's resources, 1 percent of employees' time, and 1 percent of the firm's technology to improve communities worldwide. The company also strives to reduce carbon emissions and focuses on fostering employee success.

#### **YOUR CALL**

**Do you believe corporate social responsibility really has benefits? Can you think of any highly profitable and legal businesses that do not practice any kind of social responsibility?**

*Corporate social responsibility surely has benefits. These benefits do not only include human and global benefits, such as reducing global warming or feeding the hungry, but also financial benefits. Going green can attract new customers, and there are actually profits in green technology, as well as company efficiencies that can be gained. For example, Coca-Cola has embraced the idea of climate change as an economically disruptive force and is focused on water conservation techniques, along with other measures.*

*Students may have different ideas of companies that do not practice any kind of social responsibility. Some companies are more famous for their CSR practices than others, but some names that have been brought up before are Apple, BP, and JP Morgan Chase.*

#### **Additional Activities:**

One way to build on this Example is to have the students watch the CBS *This Morning* segment "[Salesforce CEO on Using Business for Social Activism](#)." In this 7-minute video, Salesforce.com CEO Marc Benioff discusses the new era of corporate social activism. Consider using the following discussion questions:

Do you agree with Marc Benioff that CEOs today should not focus exclusively on shareholder wealth? Defend your point of view.

Discuss the advantages and disadvantages of CEOs being advocates for social issues, such as Indiana's Religious Freedom Restoration Act referred to in the video.

Provide examples of what Marc Benioff likely believes are the economic, legal, ethical, and philanthropic responsibilities of Salesforce.com.



### **EXAMPLE: Corporate Governance: Chesapeake Energy's CEO Gets Some Unusual Breaks from His Board of Directors**

This Example profiles the corporate governance failures of Chesapeake Energy. At one time, Aubrey K. McClendon, the company's CEO, was one of the highest-paid chief executives. McClendon went through some personal finance difficulties as a result of falling oil prices and loss of stock value. His handpicked board of directors gave him a substantial pay package, and they even had the company purchase his personal collection of maps. Moreover, he was provided personal jet and accounting expenses, as well as sponsorship of an NBA team he partially owned. Shareholders sued, and the company was forced to renegotiate the entire package and implement corporate reforms. The CEO resigned amid multiple government investigations into the entire matter. McClendon was later indicted on charges, but he died in a single-car crash the next day.

#### **YOUR CALL**

**If McClendon had stayed on as Chesapeake Energy's CEO, what kinds of corporate reforms would you, as a shareholder, have insisted on so that you could trust what the company told you?**

*Students should identify reforms that would make sure that the board of directors is independent from the executive team running the daily operations of the company. There should be stronger financial reporting systems to this independent board and more accountability from board members to make sure that payments made on behalf of the company are proper. Moreover, there should be a stated company code of ethics and standards for compensation of upper level management, specifically, some reforms to make sure that compensation is tied to performance.*

#### **Additional Activities:**

One way to build on this Example is to have the students read *The Wall Street Journal* article "[Companies Pull Back on CEO 'Failure Parachutes.'](#)" This article describes how some firms are decreasing the size of the severance package they will offer their CEOs when the CEOs are terminated without cause.

Discuss the advantages and disadvantages of firms offering more modest severance packages.

Provide recommendations for how Chesapeake Energy should improve its corporate governance procedures.

As an investor, would you have trusted Aubrey McClendon enough to invest in his new energy company? Defend your position.

## TEXTBOOK PRACTICAL ACTIONS

There are no Practical Actions for this chapter.

## SELF-ASSESSMENTS

### SELF-ASSESSMENT 3.1

#### Assessing My Perspective on Ethics

This survey is designed to assess students' views about ethics.

#### Student Questions:

1. Are your views more idealistic or more relativistic?

*Student responses will differ here based on their assessment results.*

2. What do you think about students cheating on homework assignments in school? What about cheating on exams?

*Students will generally have a negative view on cheating, but it would be good for them to expand on their ethical perception.*

3. Are your answers consistent with your score? Explain.

*Student responses will differ based on their results.*

4. Suppose you're a manager. What does your score imply about the way you would handle the unethical behavior of someone you manage? What about your boss's unethical behavior?

*Student responses will differ based on their results. Nevertheless, students may or may not have different perspectives based on who they manage, and who they report up to.*

#### Supplemental Activity:

- 1) Students should be assigned to groups based on their Self-Assessment scores. Students with high idealism scores should be grouped together, and students with high relativism should be grouped together.
- 2) Each group should create a code of ethics for an organization of its choosing.
  - a) How can a stronger ethical climate be created through codification?
  - b) What types of employees would you be looking for?
  - c) Are there training programs that can be developed?
  - d) What types of rewards should be provided for ethical behavior?
  - e) What protections for whistle-blowers can be provided?
- 3) Each group should present its code of ethics to the class. The instructor should look for differences in the codes of ethics based on the group leaning more toward idealism or relativism



## SELF-ASSESSMENT 3.2

### Assessing Your Attitudes toward Corporate Responsibility

This Self-Assessment measures students' attitudes toward corporate responsibility.

#### Student Questions:

1. Where do you stand on corporate social responsibility?

*Students' responses will differ based on their assessment results. Some students may be surprised to see that they scored low on their attitude CSR.*

2. What life events have influenced your attitudes toward corporate social responsibility? Discuss.

*Student upbringing, values, and morals may have a significant influence on their attitudes toward CSR, but specific events may have made the difference. This can include experience working at organizations with high or low CSR, or witnessing newsworthy events that called for a philanthropic cause.*

3. Based on the three lowest-rated items in the survey, how might you foster a more positive attitude toward social responsibility? Explain.

*Responses will differ here based on what the lowest-rated items were. In general, students should understand that they should strive to be profitable while obeying the law, being ethical, and being a good global corporate citizen. In other words, they should be capitalistic, but also do what is required and expected by stakeholders. If possible, doing what is desired would complete the CSR pyramid.*

#### Supplemental Activity:

- 1) Students should be assigned to groups based on their Self-Assessment scores. Students with a positive attitude toward CSR should be grouped together, and students with a low attitude toward CSR should be grouped together.
- 2) Groups who exhibited positive CSR should discuss what their organizations have done to promote CSR.
- 3) Groups who exhibited low CSR should discuss what their organizations could do to promote CSR.
- 4) Both groups should use Carroll's CSR topics (or pyramid) to structure their discussion around.
- 5) Each group should share with the class.

## GROUP EXERCISE: Solving an Ethical Dilemma

### Objective

- To further students' understanding regarding the four approaches to deciding ethical dilemmas.

### Introduction

Our personal values impact the determination of what is ethical. Researchers have identified four approaches to deciding ethical dilemmas that are grounded in values. They are: the utilitarian approach, the individual approach, the moral rights approach, and the justice approach. This exercise provides students the opportunity to solve an ethical dilemma from the vantage point of each of these four approaches to deciding ethical dilemmas.

### Instructions

1. Students should remain at their desks and read the scenario below.
2. You are a struggling writer. Several of your short stories are published thanks to winning entries in various writing contests. You are majoring in creative writing and English; your peers are also writers. Recently, you entered a university sponsored writing contest and placed third, another person in your class took home the grand prize. At first you were not upset, but a friend called you last week and told you she read the winning entry and it was remarkably similar to a story you published on the Internet a few months ago. You obtain a copy and sure enough, the plot is the same, the major characters are pretty much the same (though their names are different), and the only real difference you find is that the story takes place in a different city than yours. Although your original words were not used, you feel your classmate plagiarized your story. Tomorrow is the banquet honoring the winners of the contest, and your classmate will of course be there. What are you going to do?
3. Have each student decide what he or she would do based on each of the four approaches to deciding ethical dilemmas. In other words, students come up with four solutions, each one based on one of the approaches to deciding ethical dilemmas.
4. Break students into groups of three or four.
5. Have students openly discuss what they would do for each approach, and then derive consensus recommendations.

### Questions for Discussion

1. To what extent did the group develop different recommendations for each approach?
2. Was it difficult for the group to reach a consensus on how to handle the situation based on each approach? Explain.

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3. To what extent did individuals' values impact the selection of solutions?
4. What is your takeaway from this exercise?

Source: Adapted from R. Kreitner and A. Kinicki. (2004). *Organizational Behavior (6<sup>th</sup> ed.)*, New York, NY: McGraw-Hill, p. 175.

## MANAGER'S HOT SEAT

Students may complete the “*Ethics: Let’s Make a Fourth Quarter Deal*” Manager’s Hot Seat exercises in Connect for this chapter.

### Introduction

This scenario provides a depiction of the ethical dilemmas that may arise when two legitimate organizational goals are in conflict: generating revenue and legal business practices. The manager in this situation is presented with a risky course of action that, if it worked, would have tremendous benefits for his company and department. Interpersonal communication styles and influence tactics are also demonstrated and provide a stimulus for discussion among students.

### Learning Objectives

1. To analyze the causes of ethical dilemmas
2. To evaluate influence techniques and communication styles
3. To apply principles of ethical decision making

### Scenario Description:

#### *Overview*

A Wall Street trading company, Smith/Blackwell, is coming to the end of their fourth quarter. BesTel Inc. has offered to invest four million dollars with Smith/Blackwell, which would not only save the department from lay-offs, but would create year-end bonuses for the manager’s team, which in recent months has been plagued by very low morale. In order to process the investment before year’s end, some procedural steps would need to be “abbreviated/skipped/ignored.” The shareholders of BesTel will not meet until mid-January and thus cannot approve the investment until then. Therefore, Gina presents a situation by which she can side-step procedure to arrive at the advantageous outcome for the department, and she wants Jason’s support. While the chairman of the board, Jack, has assured Gina that the vote will pass and that he’s talked to the key shareholders personally, the truth is, he does not have the power to make this decision without the board’s actual vote.

#### *Profile*

- Jason Powell, Director of New Accounts, manages a team of 25 people. He has held the position for four years, but in the past two years, investments have fallen by over 50 percent department-wide.

- Gina Travers, Assets Manager. Gina has been working in the financial industry for over nine years. She has been with Smith/Blackwell for four years and was hired by Powell. To date, for the year 2002, Gina has brought in 3.5 million dollars in investments.

## Discussion Questions

### *Learning Objective #1: To analyze the causes of ethical dilemmas*

What is the source of this conflict, and what role has the organization played to contribute to this dilemma?

*The account representative is very motivated to make this deal go through because the organization has tied her bonuses and salary increases to the dollar amount of investments she brings to the company. The manager also is rewarded if his department makes sales. On the other hand, he has the responsibility to protect the company's assets and reputation by engaging in lawful business agreements. Thus, these competing goals set up difficult ethical decisions for the manager and employees.*

Which of the "Concepts in Ethical Behavior" are relevant to this scenario? Why?

*While most would be considered in this scenario, students' answers will vary. Certainly professional ethics would be a driving factor in this case because there are rules and procedures to which individuals in this profession are bound. Also, organizational stakeholders should be considered because if the company engages in an unlawful deal, the reputation and ultimate longevity of the company could be at risk. On the other hand, some of the employees may lose their jobs if revenue doesn't come in this quarter.*

### *Learning Objective #2: To evaluate influence techniques and communication styles*

Describe Gina's initial approach with Jason. What influence tactic does she use initially? Was it successful?

*Initially, Gina relies on the common goals she and Jason share with regard to making their fourth quarter numbers to save the department from potential layoffs. Her emotion and elation at the solution is an attempt to appeal to Jason emotionally so that he'll gloss over the important details that may prevent the deal. Clearly, she was not successful, as he began to examine the deal more closely.*

How does Gina handle Jason's hesitation to move forward on the deal? How does her reaction affect Jason? (PPT 2-6)

*Gina gets flustered and does not use a rational case to argue her point. She begins to get defensive and uses a “bulldozer” approach to influencing Jason rather than a thoughtful, rational one. This causes Jason to become even more skeptical of the deal, and he becomes increasingly reluctant. He does effectively stay calm and does not raise his voice.*

*Learning Objective #3: To apply principles of ethical decision making*

Consider each of the principles to guide ethical conduct. Analyze this situation from both Gina’s and Jason’s perspectives using these principles. Which model did Gina rely on most heavily?

*Answers will vary. An argument could be made for any of the models. Gina’s comment about the “greater good” resembles the utilitarian model. However, the negative consequences of the action could impact even more people than those who might enjoy positive consequences. Jason might argue the moral rights position in that not allowing the shareholders to vote before the deal is done violates their rights.*

## PUBLISHER VIDEOS

The following videos are sponsored by McGraw-Hill Education and can be found on either the Principles of Management/Organizational Behavior DVD (Volume 1), or via instructor resources on Connect:

### **Focusing on Ethics and People at Whole Foods**

**Time:** 9:03

#### **Key people and companies**

Whole Foods

John Mackey, CEO of Whole Foods

#### **Overview**

In 1978, John Mackey and Rene Lawson Hardy opened a health food store called “SaferWay” in Austin, Texas. Two years later, SaferWay began the first of a series of mergers and acquisitions and opened the original Whole Foods Market. From there, Whole Foods Market began expanding by opening new stores and acquiring other natural foods stores.

The mission of Whole Foods is “Whole Foods, Whole People, Whole Planet.” First, the mission reflects the company’s commitment to providing natural and pure foods to consumers. The second part of the mission refers to the company’s commitment to their employees. The company aims for a “self-directed team culture” and a “respectful workplace where people are treated fairly and are highly motivated to succeed” (<http://www.wholefoodsmarket.com/company/index.php>). The third part of the mission is a commitment to protecting the environment and the planet.

The video demonstrates concepts related to ethics, corporate social responsibility, environmental sustainability, people-centered organizations, and employee empowerment.

#### **Preparing students before the video**

Ask students what they know about Whole Foods and if they have shopped there. Ask students what makes Whole Foods different from other food retailers and why customers shop at Whole Foods despite higher prices than competitors.

#### **Major issues in the case**

- Ethics
- Stakeholder analysis
- The importance of the management philosophy

## Discussion questions and answers

1. *What stakeholders are impacted by the actions and decisions of Whole Foods?*

Whole Foods (and all organizations) must respond to a variety of stakeholders with varying needs. Consumers, for example, are stakeholders. Whole Foods aims to provide natural and pure foods to consumers. Employees are also stakeholders. Whole Foods is committed to providing good pay, benefits, and working conditions to employees. Companies must also consider the interests of shareholders who expect a return on their financial investments. The community and environment also can be considered stakeholders. Organizations impact the community and environment in which they act and should be mindful and responsible of that impact.

2. *Give examples of how Whole Foods creates a “people-centered” culture for employees.*

Whole Foods employees can vote on which people they want to hire on their team, and they share in other decisions as well as company profits. The company promotes transparency in salary, and its employees are among the highest paid in the industry. Whole Foods also has a salary cap for top executives. John Mackey makes a salary far less than that of most CEOs of similarly sized companies. The company also provides full benefits to most employees.

3. *Is it possible to be both a strong competitor and also ethical in business?*

Answers will vary. The video shows John Mackey discussing acquisitions of other companies and admits to being very driven and a strong competitor. However, he also is committed to his ethical principles and management philosophy.

4. *Do you think customers are willing to pay higher prices to purchase products and services from companies that are socially responsible?*

Answers will vary. The success of Whole Foods does show that there definitely is a group of consumers who desire this type of shopping experience. Moreover, empirical research shows a positive correlation between corporate social responsibility and corporate financial performance (Orlitzky, Schmidt & Reynes, 2003).

Orlitzky, M., Schmidt, F.L. and Reynes, S.L. (2003), “Corporate social and financial performance: a meta-analysis,” *Organization Studies*, 24, 403-41.



## **Exxon Valdez Health Issues**

**Time:** 2:50

### **Key people and companies**

Gary Stubblefield, former oil spill worker

Exxon Valdez

### **Overview**

This video describes respiratory health-related issues experienced by workers following the 1989 Exxon Valdez oil spill. Throughout the video, the experience of one such worker, Gary Stubblefield, is described. Mr. Stubblefield reports that he developed health issues early on during the clean-up, went to seek medical help, and was told that his issues were due to a flu-like infection. In the meantime, Gary's respiratory issues grew worse, and he also suffered cognitive impairments allegedly due to lack of oxygen flow to the brain. Doctors later evaluated Mr. Stubblefield and reported that he did, in fact, suffer from "severe and permanent injury" to both his cognitive facilities as well as to his respiratory system.

Thousands of other oil spill workers suffered from similar impairments. Notably, although Exxon Valdez funded the completion of 350 environmental studies, they did not fund any studies investigating the potential detrimental effects of the oil spill on *human* health.

Mr. Stubblefield and his lawyer fought Exxon Valdez in court for years before reaching a settlement with the company. According to Mr. Stubblefield's lawyer, the case was challenging due to withheld hygiene and medical records, and the company essentially "abandoned" the workers. Indeed, the health effects of oil spills have been largely ignored. Longer-term longitudinal studies are virtually nonexistent. Since the time this video was produced, only one longitudinal study was conducted that investigated long-term health risks following a 2002 oil spill off the coast of Spain. This study found that workers subsequently experienced respiratory problems, psychological trauma, and DNA damage said to increase the risk of developing cancer.

### **Preparing students before the video**

Do you think that certain types of jobs inherently have the potential to harm workers' physical health compared to other jobs? If yes, which types of jobs?

Have you or has someone you know ever worked in a position that led to unanticipated physical or mental health problems? Did s/he report the issue? If so, how did the employer respond?

### **Major issues in the case**

- Workplace health and safety
- Business ethics and corporate social responsibility

## Discussion questions and answers

1. *Who, in your view, bears ethical responsibility for Mr. Stubbleman's current health problems? Why?*

Answers will vary. On one hand, students could indicate that, assuming Exxon Valdez knew of potential negative health effects, Exxon Valdez bears much responsibility for not warning workers of such issues and for failing to monitor worker health despite health complaints. In addition, students could also suggest that, if the company was not aware of negative health effects, that they fund research investigating this as a possibility, and/or invest in partnerships with organizations (e.g., National Institute for Occupational Health and Safety) that aim to facilitate policies, programs, and practices that integrate protection from work-related safety and health hazards. Finally, some students may indicate that Mr. Stubblefield voluntarily entered into a potentially dangerous position, and therefore he also bears partial personal responsibility.

2. *Beyond health and safety risks, what other sorts of ethical risks/costs are assumed by those engaged in the oil and gas industry as whole? From a business standpoint, do you think that the benefits outweigh the risks?*

In addition to potential employee health and safety concerns, a number of other ethical risks are assumed by oil and gas companies. These include the environmental costs to society (e.g., air pollution, and the ecological impact following oil spills) and various "second-order" effects, including socio-political ones such as social conflict and dislocation.

The various benefits of being in the oil and gas industry, despite ethical concerns, include lucrative profits and the potential for inexpensive fossil fuels to drive economic growth and higher standards of living. Students should make a personal assessment regarding their perspective of the risk-benefit ratio.

3. *In recent years, many oil companies have adopted a stance of "Corporate Social Responsibility" (CSR). For example, Exxon states on its website that, "ExxonMobil is committed to addressing the challenge of sustainable development—balancing economic growth, social development and environmental protection so future generations are not compromised by actions taken today." Do you think this stated goal will lead to tangible changes in the way oil companies operate, or are such statements merely an exercise in public relations?*

Student opinions will vary. Oil companies likely are incorporating practices aimed at complying with safety laws, but they do incur real and potentially severe reputational risks as a function of the environmental, economic, and social risks involved with such work. Thus, students could argue that any statements are, in part, a charade for a lucrative industry trying to maintain its reputation in the public eye. Indeed, media reports indicate that the industry as a whole has been fraught with various reports of negligence and fraud, and the industry as a whole has publicly trended toward "CSR," but arguably, only following highly-publicized accidents (e.g., the 1989 Exxon Valdez, the 2010 Deepwater Horizon spill).

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Some cynics suggest that the adoption of such goals (whether stated or actually pursued) is just another way of enhancing their bottom lines.