

## Chapter 2: Business Ethics and Social Responsibility

### 1. CHAPTER OVERVIEW

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

### 2. LEARNING OBJECTIVES

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

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

### 3. LECTURE NOTES WITH DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

**c. What are values?**

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

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

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

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

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

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

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

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

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

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

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

<p>Point/Counterpoint: Do a firm's ethical responsibilities extend beyond maximization of profits?</p>	<p><b>Teaching tip:</b> Here are some questions to help you tie the Point/Counterpoint into class discussion:</p> <ul style="list-style-type: none"> <li>• Does the responsibility lie with a business to act ethically, or with government to regulate business in order to curb unethical behavior?</li> <li>• Do we and/or should we hold businesses to different ethical standards than we would an individual?</li> </ul>
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#### 4. *TEACHING IDEAS*

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

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

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

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

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

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

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

environmental effects that their behavior had on the citizens and community of Ecuador.

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

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

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

## 6. *ANSWERS TO QUESTIONS AND PROBLEMS*

1.	If an American business manager was working in another country and was questioning engaging in a behavior that is ethical in that country, but unethical in the United States, that manager could apply the Public Disclosure Test. Specifically, the manager may want to think about whether the behavior would be considered ethical if it were to be broadcast in the country where she is working.
2.	The legality of a decision or behavior is the minimal standard that must be met. The existence of this minimal standard is essential for developing ethical business decisions. Overall, law and business ethics serve as an interactive system- informing and affecting each other.
3.	The legality of a decision is the minimal standard that must be met. The law both affects and is affected by evolving ethical patterns.
4.	The WH framework provides practical steps for responding to an ethical dilemma. The W refers to who would the decision affect such as stakeholders and their interests. The H refers to how we make ethical decisions, specifically, those principles and beliefs that guide our decisions.
5.	Mitsubishi's violation of the NDA would likely cause tech companies to be very cautious

	<p>about how they approach potential investors. These companies may disclose less amounts of sensitive information to potential investors out of fear that the investor would later disclose the information or use it themselves without benefiting the company.</p> <p>In certain contexts, Mitsubishi's actions can be supported by the WH framework. For example, if the chip technology truly was the "Holy Grail of memory technology," products derived from the technology would likely sell very well and bring in large amounts of revenue for Mitsubishi. This revenue would directly benefit Mitsubishi shareholders and would likely indirectly benefit employees. If Mitsubishi was considering these stakeholders, then its actions seems less unethical.</p> <p>However, Mitsubishi's actions can be argued to be quite unethical under the WH framework when interpreted differently. After all, Mitsubishi essentially benefited from Stern's ideas without Stern getting any credit or compensation. Stern was a stakeholder who was negatively affected in this instance. Mitsubishi's actions also violate some of the How's of the WPH framework, such as the Golden Rule. It's doubtful that Mitsubishi would have appreciated Stern using its ideas for his own gain without permission, so arguably it's unethical that Mitsubishi used Stern's ideas without permission.</p>
6.	Presumably Kozlowski would have conducted himself differently if his actions were subject to public disclosure. The same result would entail from the universalization test as no one would want Kozlowski's behavior to serve as an example for others nor did it make the world a better place.
7.	The WH framework calls for students to apply the whom, purpose and how tests. Students should determine the stakeholders affected by the decisions made by the state and the pharmaceutical companies, the values underlying these decisions and the principles applicable to making the decision in reaching their conclusions.
8.	This law is intended to protect arrestees from predatory sales practices of bail bondsmen. Without the law, a bail bondsman can sell their services to individuals immediately after they've been arrested, which gives the arrestee virtually no time to collect their thoughts and make a decision that truly reflects their interests. By allowing solicitation of bail bond services only after an arrestee has made a "bona fide request," the law can be more certain that an arrestee actually wants bail services and isn't simply acting out of the initial panic that may come from being arrested. Within the context of the WH framework, this law ensures that the purposes behind the solicitation are sound in order to protect the arrestee stakeholders in this situation.
9.	<p>Obviously, the executives and shareholders of Dragon are some of the stakeholders negatively affected by the ordeal because due to the L &amp; H shares being worthless. The less obvious stakeholders, however, include the employees of Dragon. Even if the Dragon didn't go completely under and displace all of its employees, there was likely plenty of downsizing to help cover the cost of repairing Dragon's financial situation.</p> <p>Going by the Golden Rule standard within the WH framework, the decision of Goldman Sachs' team to not inform Dragon about the status of L &amp; H because Dragon didn't ask is highly unethical. Surely, Goldman Sachs would not have appreciated if Dragon was in their position and didn't inform them of a poor business partner, so it's hardly ethical that Goldman Sachs did just that. Ideally, a business should go as far to fulfill a contract as they would want the other party to go in fulfilling the contract. Both businesses must try to strike a fair balance between serving both their own interests and the interest of the other party.</p>
10.	Values that may be at odds include freedom, justice and efficiency.