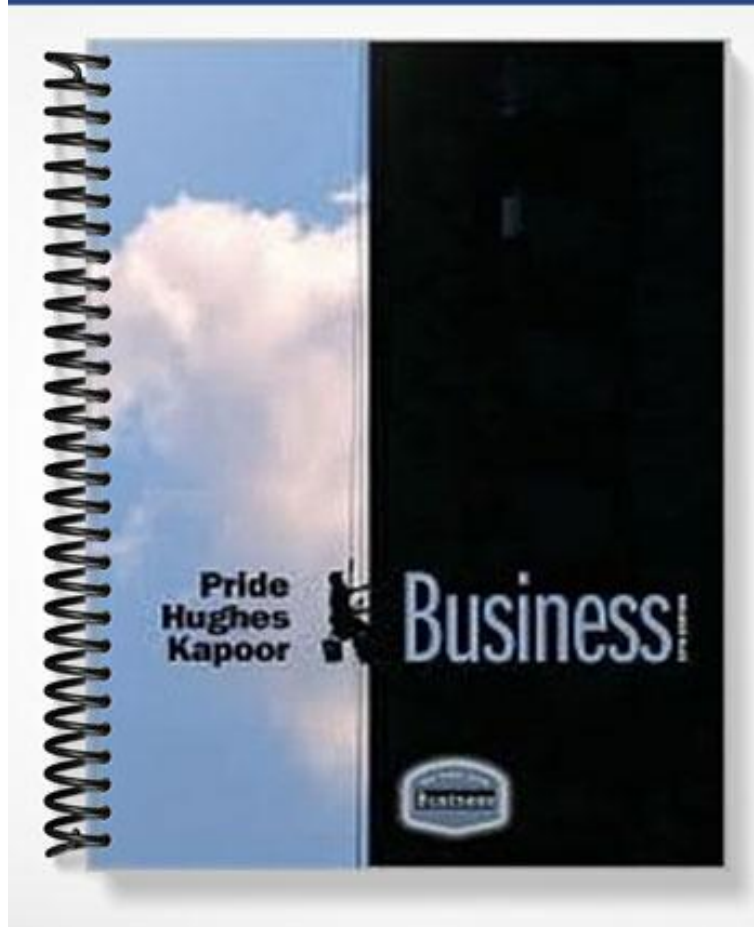


SOLUTIONS MANUAL



CHAPTER 2

Being Ethical and Socially Responsible

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2.1 A WORD FROM THE AUTHORS

The material on ethics and social responsibility is presented early in the text to underscore the importance of business's role in our society. In this context, we define business ethics and discuss the major factors believed to influence the level of ethical behavior in an organization. We also examine several types of ethical issues.

As in Chapter 1, we turn to American history to trace the evolution of socially responsible business practices. Next, we define and contrast two contemporary views of social responsibility: the economic model and the socioeconomic model. In the process, we present arguments both for and against increased social responsibility in business. We consider social changes in three specific areas: consumerism, employment practices, and the environment. We identify public and private agencies that regulate or monitor business practices in these areas, including the Equal Employment Opportunity Commission and the Environmental Protection Agency. Finally, we outline the steps in the development and implementation of an effective corporate program for social responsibility.

2.2 TRANSITION GUIDE

New in Chapter 2: Being Ethical and Socially Responsible

- A new *Inside Business* feature focuses on the socially responsible bakery, Dancing Deer.
- A new *Ethics Matters* feature discusses the use of questionable promotional communications.
- A new *Jump-Starting Your Career* insert provides information on how volunteer work can make a difference in your career.
- A new *The Business of Green* feature discusses Timberland's use of "green index tags" to rate its shoe products.
- A *Sustaining the Planet* piece highlights Adidas as one of a growing number of companies sharing sustainability ideas.
- A revised *Spotlight* feature provides up-to-date information about what employees pilfer in the workplace.
- A new *Spotlight* feature focuses on the "10 Best Corporate Citizens, 2007."
- A new Case 2.2 at the end of the chapter focuses on the environmentally friendly and socially responsible Belu Water.
- The Journal Exercise is now one of the exercises included in the Building Skills for Career Success materials.
- The Improving Communication Skills exercise has been deleted.
- The Prep Test content included in the last edition of the text has been moved to the student website.

2.3 QUICK REFERENCE GUIDE

Instructor Resource	Location
Transition Guide	IM, p. 69
Learning Objectives	Textbook, p. 35; IM, p. 71; PowerPoint Slide 2-3
Brief Chapter Outline	IM, pp. 71–72
Guide for Using Transparency Acetates & PowerPoint Slides	IM, pp. 73–74 Reproduced in Print IM
General Chapter Teaching Tips	IM, p. 75
Comprehensive Lecture Outline	IM, pp. 76–104
Ethics Matters <i>Says Who?</i>	Textbook, p. 38 Questions and Suggested Answers, IM, p. 77
At Issue: Should women be given additional rights?	IM, p. 96
Jump-Starting Your Career <i>Volunteering for Experience</i>	Textbook, p. 45 Questions and Suggested Answers, IM, p. 99
The Business of Green <i>Best Foot Forward for Timberland</i>	Textbook, p. 61 Questions and Suggested Answers, IM, p. 102
Inside Business Case: Values Are Baked into Dancing Deer	Textbook, p. 36
Return to Inside Business	Textbook, p. 65; Suggested Answers, IM, p. 111
Marginal Key Terms List	Textbook, p. 66
Review Questions	Textbook, p. 66; Suggested Answers, IM, pp. 111–114
Discussion Questions	Textbook, p. 67; Suggested Answers, IM, pp. 114–115
Video Case 2.1 (New Belgium Brewing) and Questions	Textbook, p. 67 DVD and Video Segment 2d Suggested Answers, IM, pp. 115–116
Additional Chapter 2 Videos	DVD Segments 2a–2c Additional Questions, Video Guide (at the back of this IM)
Case 2.2 (Belu Water) and Questions	Textbook, p. 68; Suggested Answers, IM, p. 116
Building Skills for Career Success	Textbook, pp. 68–69; Suggested Answers, IM, pp. 116–118
IM Quiz I & Quiz II	IM, pp. 119–121 Answers, IM, p. 122
Class Exercise: How ethical are the following behaviors?	Transparency 24 (2.B) Premium PowerPoint Slide 2-15 to 2-17 Suggested Answers, IM, p. 122
Additional Class Exercises	IM, pp. 122–123
Debate Issue: Can ethics be taught?	Transparency 25 (2.C) Premium PowerPoint Slide 2-14
Chapter Quiz (in Transparencies and PowerPoints)	Transparency 26 (2.D) Premium PowerPoint Slides 2-50 to 2-52 Answers, IM, p. 122; Premium Slides 2-53 to 2-55

2.4 LEARNING OBJECTIVES

After studying this chapter, students should be able to:

1. Understand what is meant by *business ethics*.
2. Identify the types of ethical concerns that arise in the business world.
3. Discuss the factors that affect the level of ethical behavior in organizations.
4. Explain how ethical decision making can be encouraged.
5. Describe how our current views on the social responsibility of business have evolved.
6. Explain the two views on the social responsibility of business and understand the arguments for and against increased social responsibility.
7. Discuss the factors that led to the consumer movement and list some of its results.
8. Analyze how present employment practices are being used to counteract past abuses.
9. Describe the major types of pollution, their causes, and their cures.
10. Identify the steps a business must take to implement a program of social responsibility.

2.5 BRIEF CHAPTER OUTLINE

I. Business Ethics Defined

II. Ethical Issues

- A. Fairness and Honesty
- B. Organizational Relationships
- C. Conflict of Interest
- D. Communications

III. Factors Affecting Ethical Behavior

- A. Individual Factors Affecting Ethics
- B. Social Factors Affecting Ethics
- C. “Opportunity” as a Factor Affecting Ethics

IV. Encouraging Ethical Behavior

- A. Government’s Role in Encouraging Ethics
- B. Trade Associations’ Role in Encouraging Ethics
- C. Individual Companies’ Role in Encouraging Ethics

V. Social Responsibility

VI. The Evolution of Social Responsibility in Business

- A. Historical Evolution of Business Social Responsibility

VII. Two Views of Social Responsibility

- A. The Economic Model
- B. The Socioeconomic Model
- C. The Pros and Cons of Social Responsibility
 - 1. Arguments for Increased Social Responsibility
 - 2. Arguments Against Increased Social Responsibility

VIII. Consumerism

- A. The Six Basic Rights of Consumers
 - 1. The Right to Safety
 - 2. The Right to Be Informed
 - 3. The Right to Choose
 - 4. The Right to Be Heard
 - 5. Additional Consumer Rights
- B. Major Consumerism Forces

IX. Employment Practices

- A. Affirmative Action Programs
- B. Training Programs for the Hard-Core Unemployed

X. Concern for the Environment

- A. Effects of Environmental Legislation
 - 1. Water Pollution
 - 2. Air Pollution
 - 3. Land Pollution
 - 4. Noise Pollution
- B. Who Should Pay for a Clean Environment?

XI. Implementing a Program of Social Responsibility

- A. Developing a Program of Social Responsibility
 - 1. Commitment of Top Executives
 - 2. Planning
 - 3. Appointment of a Director
 - 4. The Social Audit
- B. Funding the Program

2.6 GUIDE FOR USING TRANSPARENCY ACETATES

Transparency Number	Figure Number	Title/Description
16	Figure 2.1	Factors That Affect the Level of Ethical Behavior in an Organization
17	Table 2.1	Guidelines for Making Ethical Decisions
18	Table 2.2	Early Government Regulations That Affected American Business
19	Table 2.3	A Comparison of the Economic and Socioeconomic Models of Social Responsibility as Implemented in Business
20	Figure 2.3	Comparative Income Levels
21	Figure 2.4	Relative Earnings of Male and Female Workers
22	Table 2.5	Summary of Major Environmental Laws
23	Figure 2.A	Chapter Outline (Can be used to facilitate class instruction or to help students organize their notes)
24	Figure 2.B	Class Exercise (This exercise about what is ethical can be used for class discussion. Suggested answers appear at the end of this chapter in the IM.)
25	Figure 2.C	Debate Issue: Can ethics be taught?
26	Figure 2.D	Chapter Quiz (Suggested answers appear at the end of this chapter in the IM.)
27	Figure 2.E	Special Areas of Concern for Managerial Ethics
28	Figure 2.F	Major Consumerism Forces

GUIDE FOR USING POWERPOINT SLIDES

Basic PPT Slide Number(s)	Premium PPT Slide Number(s)	Title/Description
1	1	Chapter Opener
	2*	Chapter Overview Video
2–3	3–4	Learning Objectives
4–5	5–6	Chapter Outline begins
	7*	Special Areas of Concern for Managerial Ethics
6	8	<i>Figure 2.1</i> Factors That Affect the Level of Ethical Behavior in an Organization
7–8	9–10	Chapter Outline continues
9	11	<i>Table 2.1</i> Guidelines for Making Ethical Decisions
	12*	“The Six Pillars of Character”
	13*	Using the Internet exercise
	14*	Debate Issue: Can ethics be taught?
	15–17*	Class Exercise
10	18	Chapter Outline continues
	19*	Class Exercise
11	20	Chapter Outline continues
12	21	<i>Table 2.2</i> Early Government Regulations That Affected American Business
13–19	22–28	Chapter Outline continues
	29*	<i>Figure:</i> Major Consumerism Forces
20–23	30–33	<i>Table 2.4</i> Major Federal Legislation Protecting Consumers Since 1960
24	34	Chapter Outline continues
25	35	<i>Figure 2.3</i> Comparative Income Levels
26	36	Chapter Outline continues
27	37	<i>Figure 2.4</i> Relative Earnings of Male and Female Workers
28	38	Chapter Outline continues
	39*	<i>Video Clip:</i> New Belgium Brewing Social Responsibility
29	40	Chapter Outline Continues
30–31	41–42	<i>Table 2.5</i> Summary of Major Environmental Laws
32–37	43–48	Chapter Outline concludes
	49*	<i>Fortune’s</i> Most Admired Companies
	50–52*	Chapter Quiz
	53–55*	Chapter Quiz with answers indicated

*Indicates Premium Slide (provides coverage that supplements text content)

2.7 GENERAL CHAPTER TEACHING TIPS

- This chapter contains four class activities that can be done in ten to twenty minutes. While recommendations are made on how to use these activities, they can also be adapted to suit your classroom needs. The first exercise, “To Take or Not to Take the Gift,” relates to Learning Objectives 2 and 3 and allows students to look at how they might respond to supplier relationships. The second exercise allows student to build a code for Internet use on the job. The “Puffery” exercise gives groups of students the opportunity to assess advertising claims. The appropriate place to use these exercises is noted in the Comprehensive Lecture Outline. The fourth activity is a crossword puzzle, which could be used to review the chapter in teams.
- There are specific examples, discussion starters, and teaching tips interspersed throughout the Comprehensive Lecture Outline to help you relate the theoretical material to student interests.
- If your school has a code of ethical conduct for students, it might be interesting to discuss it while covering this chapter. Note, for example, the similarities and differences that might exist between a university code and a business code. A good example of a college honor code is that of Amherst College in Massachusetts. Go to <https://www.Amherst.edu/campuslife/deanstudents/code/code> for further details
- Explain to students that firms can adopt a number of different stances regarding social responsibility: (1) An *obstructionist stance* describes firms that do as little as possible in the social responsibility arena. If cited for unethical behavior, they deny it, cover it up, or try to hide it. (2) A *defensive stance* describes firms that do only what is legally required and nothing more. (3) An *accommodative stance* describes firms that not only do what is required by law, but on selected issues will do more. (4) A *proactive stance* describes firms that do far more than is legally required in all situations. Be sure to stress that these four approaches represent points along a continuum. Thus, there are often fine gradations between different approaches to social responsibility.
- A debate that has plagued some business programs is the extent to which colleges can teach ethics. Some experts believe that ethics can indeed be taught, whereas other experts believe that ethics are formed much earlier and thus cannot be taught when people get older. Ask students for their opinions.
- Ask students to provide examples in which an organization they worked for treated them in an ethical or an unethical fashion.
- Note that many corporate scandals, such as those at Enron and WorldCom, are allegedly cases of individual misdeeds in defiance of corporate policies. Ask students whether they believe that an organization can distance itself from the actions of its workers or whether the organization must somehow be responsible for creating an environment in which unethical conduct can occur.
- Ask students to help identify specific examples of how socially responsible behavior has had a positive impact or conversely a negative impact.
- Ask students for their thoughts and opinions regarding the relative merits of the arguments for and against social responsibility. This can also be set up as a debate exercise with different teams arguing for and against social responsibility.
- Ask students whether they believe tobacco will or should ever be outlawed. Given that people who do not start to smoke by age 19 most likely never will, should all tobacco advertising be banned?

2.8 COMPREHENSIVE LECTURE OUTLINE

Inside Business: Values Are Baked into Dancing Deer

Most managers today are finding ways of balancing a growing agenda of socially responsible activities with the drive to generate profits.

► *Video Segment 2a—Overview (Time 1:11)*

I. BUSINESS ETHICS DEFINED

Ethics is the study of right and wrong and of the morality of choices individuals make. *Business ethics* is the application of moral standards to business situations

Discussion Starter: Ask students how they decide what is right and what is wrong? Is there an internal mechanism or process they use, or a code? Follow up by asking where they learned their personal code.

II. ETHICAL ISSUES

Businesspeople face ethical issues every day, and some of these issues can be difficult to assess. These issues arise out of a business's relationship with investors, customers, employees, creditors, or competitors.

A. **Fairness and Honesty.** Fairness and honesty in business are important ethical concerns. Businesspeople must obey all laws and regulations as well as refrain from knowingly deceiving, misrepresenting, or intimidating others.

- B. Organizational Relationships.** It may be tempting to place personal welfare above the welfare of others or of the organization. Relationships with customers and coworkers often create ethical problems such as taking credit for others' ideas or work, not meeting one's commitments, and pressuring others to behave unethically.
- C. Conflict of Interest.** Conflict of interest results when a businessperson takes advantage of a situation for his or her own personal interest rather than for the employer's interest.
- D. Communications.** Business communications, especially advertising, can present ethical questions. Advertisers must take precautions to guard against deception.

Using the Boxed Inserts

Ethics Matters:

Says Who?

Suggested Question 1. Why is it important that marketers and their advocates identify themselves when communicating with the public?

Consumers have the right to know the identity of organizations and their representatives who are making claims or trying to persuade them to use a product/service so they can determine their motivation. For example, surveys clearly show that consumers believe a newspaper article extolling the virtues of a product is more credible than advertising because it is not paid for by the marketer.

Suggested Question 2. Ask students whether they believe that the ethics code established by the Word of Mouth Marketing Association (WOMMA) is adequate to prevent brand ambassadors from misrepresenting their clients' products.

Clearly, WOMMA's ethics code is a step in the right direction. Unfortunately, WOMMA does not monitor the practices of its members and does not have a mechanism to ensure that its members are in compliance with the code. Further, there are many "citizen marketing" agencies that employ brand ambassador techniques that are not members of WOMMA.

III. FACTORS AFFECTING ETHICAL BEHAVIOR

The factors that affect the level of ethical behavior in organizations are individual, social, and opportunity. (See Figure 2.1.)

CLASS ACTIVITY

Resource Exercise: The “To Take or Not to Take the Gift” exercise can be used here. It takes approximately fifteen to twenty minutes.

A. Individual Factors

Affecting Ethics

1. Individual

Knowledge of
an Issue

A decision maker
with a greater
amount of
knowledge

regarding a situation may take steps to avoid ethical problems, whereas a less-informed person may take action unknowingly that leads to an ethical quagmire.

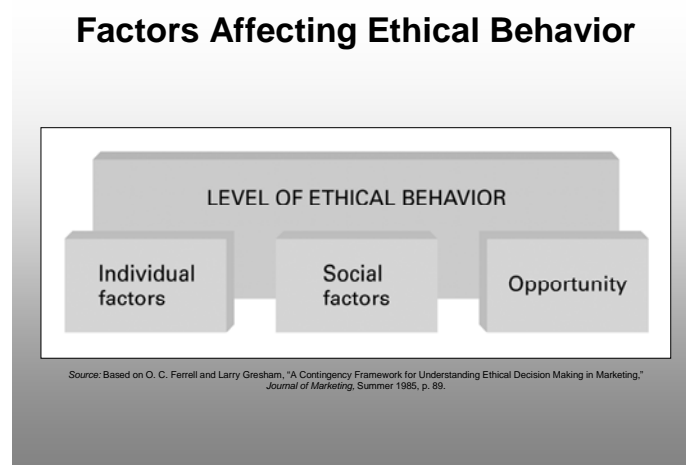
2. Personal Values

An individual’s moral values and central, value-related attitudes also clearly influence his or her business behavior.

3. Personal Goals

The types of personal goals an individual aspires to and the

Figure 2.1



manner in which these goals are pursued have a significant impact on that individual's behavior in an organization.

B. Social Factors Affecting Ethics

1. Cultural Norms

A person's behavior in the workplace, to some degree, is determined by cultural norms, and these social factors vary from one culture to another.

2. Coworkers

The actions and decisions of coworkers constitute another social factor believed to shape a person's sense of business ethics.

3. Significant Others

The moral values and attitudes of "significant others"—spouses, friends, and relatives—also can affect an employee's perception of what is ethical and unethical behavior in the workplace.

4. Use of the Internet

Even the Internet presents new challenges for firms whose employees enjoy easy access to sites through convenient high-speed connections at work. An employee's behavior online can be viewed as offensive to coworkers and possibly lead to lawsuits against the firm if employees engage in unethical behavior on controversial websites not related to their job.

Teaching Tip: A classroom can be considered a workplace for the time students are there. Ask students to take a minute and write down three examples of ethical behavior in the classroom and three examples of unethical behavior. Beyond the obvious cheating issues, students may mention things such as one student constantly monopolizing the instructor's time, etc.

C. "Opportunity" as a Factor Affecting Ethics

1. Presence of Opportunity

Opportunity refers to the amount of freedom an organization gives an employee to behave unethically if he or she makes that choice.

2. Ethical Codes

The existence of an ethical code and the importance management places on this code are other determinants of opportunity.

3. Enforcement

The degree of enforcement of company policies, procedures, and ethical codes is a major force affecting opportunity.

Discussion Starter: According to security experts, 30 percent of the average company's employees steal from that company, and another 60 percent will steal if given a motive and opportunity. Some estimates indicate that more than \$600 billion is stolen annually, or roughly \$4,500 per employee. According to the U.S. Department of Commerce, about a third of all business failures each year trace back to employee theft and other employee crime. Ask students what examples of employee theft they might have encountered.

(Source: Marcia Passos Duffy, "Stop Employee Theft Before It Happens," NFIB, July 25, 2006. Retrieved August 4, 2006, from www.nfib.com/object/IO_29370.html.)

IV. ENCOURAGING ETHICAL BEHAVIOR

Most authorities agree that there is room for improvement in business ethics. A more problematic issue is whether business can be made more ethical in the real world.

A. **Government’s Role in Encouraging Ethics**

The government can establish acceptable levels of behavior by passing more stringent regulations. For example, the Sarbanes-Oxley Act of 2002 gives those who report corporate misconduct sweeping new legal protection.

B. **Trade Associations’ Role in Encouraging Ethics**

Trade associations can, and often do, provide ethical guidelines for their members to follow.

C. **Individual Companies’ Role in Encouraging Ethics**

1. Codes of ethics that companies provide to their employees are perhaps the most effective way to encourage ethical behavior. A code of ethics is a written guide to acceptable and ethical behavior as defined by an organization that outlines uniform policies, standards, and punishments for violations.

CLASS ACTIVITY

Resource Exercise: “To Surf or Not to Surf” can be used here. A recent survey by America Online and Salary.com found that the average worker admits to wasting 2.09 hours per eight-hour workday and that 44.7 percent reported Internet surfing as their No. 1 distraction at work.

Most reasonable persons would agree that some use of the Internet for personal reasons is acceptable as long as it does not interfere with overall work performance. Clearly, it is up to the employer to determine what type of computer and Internet use is acceptable and to educate its employees as to those guidelines and restrictions.

This twenty-minute exercise asks students to develop a code for Internet use.

(Source: Jacqueline McManus, "Online Use Policy Set by Employer," Monterey Herald.com, May 19, 2006, from www.montereyherald.com/mld/montereyherald/business/columnists/jacqueline_mcmanus/14618093.htm.)

2. However, codes cannot possibly cover every situation.
 - a) Companies must also create an environment in which employees recognize the importance of following the written code.
 - b) Managers must provide direction by fostering communication, actively encouraging ethical decision making, and training employees to make ethical decisions.
 - c) Assigning an ethics officer who coordinates ethical conduct gives employees someone to go to if they aren't sure of the right thing to do.
 - d) An ethics officer meets with employees and top management to provide ethical advice, establishes and maintains an anonymous confidential service to answer questions about ethical issues, and takes action on ethics code violations.
3. See Figure 2.2 for Texas Instruments' code of ethics.
4. Unethical practices often become ingrained in an organization.
5. Employees with high personal ethics may take a controversial step called *whistle-blowing*—informing the press or government officials about unethical practices within one's organization.
 - a) Whistle-blowing can have serious repercussions for an employee.

- b) However the Sarbanes-Oxley Act of 2002 protects whistle-blowers who report corporate misconduct. Any executive who retaliates against a whistle-blower can be held criminally liable and imprisoned for up to 10 years.
- 6. When firms set up anonymous ethical hotlines to handle ethically questionable situations, employees may be more likely to engage in whistle-blowing.
- 7. When firms create an environment that educates employees and nurtures ethical behavior, whistle-blowing is greatly reduced because fewer ethical problems arise.
- 8. See Table 2.1 for

Table 2.1

general guidelines for making ethical decisions.

Guidelines for Making Ethical Decisions

1. Listen and learn	Recognize the problem or opportunity; be sure you understand others
2. Identify the ethical issues	Examine how others are affected by the situation; understand the viewpoint of those involved in the decision or its consequences
3. Create and analyze options	Put aside strong feelings; come up with alternatives; assess which options offer the best results
4. Identify the best option from your point of view	Consider the option and test it against criteria such as respect, understanding, caring, fairness, honesty, and openness
5. Explain your decision and resolve any differences	May involve arbitration or additional proposals

V. SOCIAL RESPONSIBILITY

A. *Social responsibility* is the recognition that business activities have an impact on society and the consideration of that impact in business decision making.

1. Social responsibility can cost companies a considerable amount of money, but it is also good business.

B. Examples of Socially Responsible Organizations

1. Through Young Eagles, underwritten by S. C. Johnson, Phillips Petroleum, Lockheed Martin, and other corporations, 22,000 volunteer pilots take a half million youngsters on free flights to teach flying basics.
2. The General Mills Foundation is one of the nation's largest company-sponsored foundations and has awarded over \$390 million to communities since its creation.
3. Dell Computer Corporation's outreach programs include projects that bring technology to underserved communities around the world.
4. Improving public schools around the world continues to be IBM's top social priority. Its efforts are focused on preparing the next generation of leaders and workers. In an effort to halt the spread of deadly infectious diseases threatening to reach epidemic proportions around the world, IBM launched a research effort with The University of Texas and the University of Chicago to discover drugs to treat and cure dengue fever, West Nile virus, encephalitis, hepatitis C, yellow fever, and other related diseases.
5. General Electric Company (GE) has a long history of supporting the communities where its employees work and live through its unique combination of resources, equipment, and employee and retiree volunteers. As an example, the GE Foundation recently

made a long-term, \$100 million commitment to five U.S. school districts to increase proficiency in math and science that will help more than 215,000 students.

6. With the help of dedicated Schwab volunteers, the Charles Schwab Foundation provides programs and funding to help adults and children learn the basics of financial literacy.
7. Improving basic literacy skills in the United States is among the Verizon Foundation's major priorities because of its enormous impact on education, health, and economic development. Recently, Verizon employees and retirees donated more than 485,000 hours of service and, with the Verizon Foundation, contributed \$25 million in combined matching gift funds, making Verizon Volunteers one of the largest corporate volunteer incentive programs in the United States.
8. ExxonMobil's commitment to education spans all levels of achievement. Its Science Ambassador Program is one of many programs sponsored by the company. The program emphasizes science, math, and energy education to help encourage students to become the next generation of scientists and engineers.
9. Since its founding over a century ago, AT&T has built a tradition of supporting education, health and human services, the environment, public policy, and the arts in the communities it serves. The AT&T Foundation, widely recognized as one of the more generous corporate foundations, provides more than 55 percent of its grants to underserved populations.

10. At Merck & Co., Inc., the Patient Assistance Program makes the company's medicines available to low-income Americans and their families at no cost. For nearly fifty years, Merck has provided its medicines completely free of charge to people in need through this program.

These are just a few illustrations from a long list of companies big and small that attempt to behave in socially responsible ways.

Extra Example: The richest man in the world is Bill Gates, founder of Microsoft. Forbes magazine estimated Gates' net worth at \$50 billion in its 2006 ranking.

Sometimes the possession of great wealth is accompanied by a sense of social responsibility. Bill and his wife Melinda have been devoting a significant amount of time to the charity they founded in 2001. Between them, Bill and Melinda have given away more than \$10 billion to recipients as diverse as American libraries (computer equipment) and the University of Amsterdam Academic Medical Centre (research into HIV vaccines).

Gates' charitable philosophy is a simple one: "I believe with great wealth comes great responsibility—the responsibility to give back to society and make sure those resources are given back in the best possible way, to those in need."

Ask your students if they believe such philanthropy is the responsibility of all corporate leaders.

VI. THE EVOLUTION OF SOCIAL RESPONSIBILITY IN BUSINESS

A. Historical Evolution of Business Social Responsibility

During the first quarter of the twentieth century, businesses were free to operate pretty much as they chose.

1. Working conditions were often deplorable by today's standards.
 - a) The average work week exceeded sixty hours in most industries.

- b) There was no minimum-wage law.
 - c) There were no employee benefits.
 - d) Work areas were crowded and unsafe, and industrial accidents were the rule rather than the exception.
2. During this period, consumers were generally subject to the doctrine of *caveat emptor*, a Latin phrase meaning “let the buyer beware.”
 - a) Victims of unscrupulous business practices could take legal action, but going to court was very expensive and consumers rarely won their cases.
 - b) There were no consumer groups or government agencies to hold sellers responsible for their activities.
 3. Prior to the 1930s, government became involved in day-to-day business activities only when there was an obvious abuse of the free-market system and competition was endangered.
(See Table 2.2.)
- B. The collapse of the stock market on October 29, 1929, triggered the Great Depression and years of economic problems for the United States.
1. Public pressure mounted for government to “do something” about the economy and about worsening social conditions.
 2. As a result, laws were passed to correct what many viewed as monopolistic abuses of big business, and various social services were provided for individuals.

VII. TWO VIEWS OF SOCIAL RESPONSIBILITY

Government regulation and public awareness are external forces that have increased the social responsibility of business. But business decisions are made within the firm—and there, social responsibility begins with the attitude of management.

There are two models of social responsibility.

► **Video Segment 2b—Concept: Serving Economically Depressed Areas**
(Time 4:14)

- A. **The Economic Model.** The *economic model of social responsibility* holds that society will benefit most when business is left alone to produce and market profitable products that society needs.
- B. **The Socioeconomic Model.** The *socioeconomic model of social responsibility* holds that business should emphasize not only profits but also the impact of its decisions on society.
- C. **The Pros and Cons of Social Responsibility.** The merits of the economic and socioeconomic models have been debated for years. Each side seems to have four arguments.
 1. **Arguments for Increased Social Responsibility.** Proponents of the socioeconomic model offer the following arguments:
 - a) Business cannot ignore social issues because business is a part of our society.
 - b) Business has the technical, financial, and managerial resources that are needed to tackle today's complex social issues.

- c) By helping to resolve social issues, business can create a more stable environment for long-term profitability.
 - d) Socially responsible decision making by business firms can prevent increased government intervention, which would force businesses to do what they fail to do voluntarily.
2. **Arguments Against Increased Social Responsibility.** Opponents of the socioeconomic model offer these arguments:
- a) Business managers are primarily responsible to stockholders, so management must be concerned with providing a return on owners' investments.
 - b) Corporate time, money, and talent should be used to maximize profits, not to solve society's problems.
 - c) Social problems affect society in general, so individual businesses should not be expected to solve these problems.
 - d) Social issues are the responsibility of government officials who are elected for that purpose and who are accountable to the voters for their decisions.
3. Table 2.3 compares the economic and socioeconomic viewpoints in terms of business emphasis.
4. Today, few firms are either purely economic or purely socioeconomic in outlook; most have chosen some middle ground between the two.
- a) However, our society generally seems to want—and even to expect—some degree of social responsibility from business.

- b) Thus, within this middle ground between the two extremes, businesses are leaning toward the socioeconomic view.

VIII. CONSUMERISM

Consumerism consists of all those activities that are undertaken to protect the rights of consumers. The consumer movement issues fall into three categories: environmental protection, product performance and safety, and information disclosure.

A. **The Six Basic Rights of Consumers.** During the 1960s, President John F. Kennedy declared that the consumer was entitled to a new “bill of rights.”

1. **The Right to Safety.** The right to safety means that products purchased by consumers must be safe for their intended use, include thorough and explicit directions for proper use, and have been tested by the manufacturer to ensure product quality and reliability. There are several reasons why American business firms must be concerned about product safety.
 - a) Federal agencies have the power to force businesses that make or sell defective products to take corrective actions.
 - b) Consumers and the government have been winning an increasing number of product-liability lawsuits against sellers of defective products.
 - c) The consumer is demanding safe products.

Extra Example: *At least 1.5 million people are harmed in U.S. health facilities each year by medication errors, at a cost of at least \$3.5 billion at hospitals alone, according to an Institute of Medicine study. This translates to about one medication error a day for each hospital patient.*

(Source: Lois M. Collins, "Drug Errors Harm 1.5 Million," Deseretnews.com, July 21, 2006. Retrieved August 5, 2006, from <http://deseretnews.com/dn/view/0,1249,640196531,00.html>.)

2. **The Right to Be Informed.** The right to be informed means that consumers must have access to complete information about a product before they buy it. In addition, manufacturers must inform consumers about the potential dangers of using their products.

CLASS ACTIVITY

Resource Exercise: *This is an excellent place to use the "Puffery" exercise at the end of the chapter.*

3. **The Right to Choose.** The right to choose means that consumers have a choice of products, offered by different manufacturers and sellers, to satisfy a particular need.
 - a) The government has encouraged competition through antitrust legislation.
 - b) Competition and the resulting freedom of choice provide an additional benefit for consumers by reducing prices.
4. **The Right to Be Heard.** The right to be heard means that someone will listen and take appropriate action when customers complain.

- a) Today, businesses are listening more attentively, and many larger firms have consumer relations departments that can easily be contacted via toll-free phone numbers.
 - b) Most large cities and some states have consumer affairs offices to act on citizens' complaints.
5. **Additional Consumer Rights.** In 1975, President Ford added the right to consumer education. In 1994, President Clinton added the sixth right—the right to service.

Teaching Tip: Go to the Federal Trade Commission's site and view "Credit and Your Consumer Rights" (<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre01.shtm>), which provides information that students may want to know about.

B. **Major Consumerism Forces.** Major advances in consumerism have come through federal legislation. Some laws that have been passed in the last forty-four years to protect consumer rights are listed and described in Table 2.4.

IX. EMPLOYMENT PRACTICES

Everyone who works for a living should have the opportunity to land a job for which he or she is qualified and to be rewarded on the basis of ability and performance. Although this is an important issue for society, over the years this opportunity has been denied to members of various minority groups.

1. A *minority* is a racial, religious, political, national, or other group regarded as different from the larger group of which it is a part and that is often singled out for unfavorable treatment.

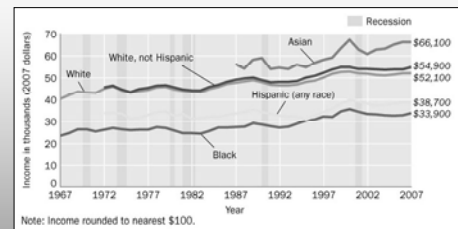
Discussion Starter: At times, the rights of one group come into conflict with the rights of other groups. AT&T terminated an employee for refusing to sign a document agreeing to abide by the employer’s “diversity philosophy.” Due to his religious beliefs, the employee was unable to agree to “respect and value” differences, including sexual orientation. Ask your students how they would have handled the conflict between the right to religion and the right to sexual orientation. Note: The court ruled in favor of the terminated employee and awarded \$150,000 in damages. See www.findarticles.com/p/articles/mi_m3495/is_8_49/ai_n6171139/pg_2 for the full story.

2. The federal government responded to the outcry of minority groups during the 1960s and 1970s by passing a number of laws forbidding discrimination in the workplace.
 - a) Now, more than forty years since passage of the Civil Rights Act of 1964, abuses still exist.
 - b) There is a disparity among income levels for whites, blacks, and Hispanics. (See Figure 2.3.)

Figure 2.3

Employment Practices

- Comparative income levels – Median household incomes of white, black, Hispanic, and Asian workers in 2007



Source: U.S. Census Bureau, Current Population Survey, 1968 to 2008 Annual Social and Economic Supplements, Income, Poverty, and Health Insurance Coverage in the United States: 2007, issued August 2008, U.S. Census Bureau, U.S. Department of Commerce, p. 6.

3. Responsible managers have instituted a number of programs to counteract the results of discrimination.

A. **Affirmative Action Programs.** An *affirmative action program* is a plan designed to increase the number of minority employees at all levels within an organization.

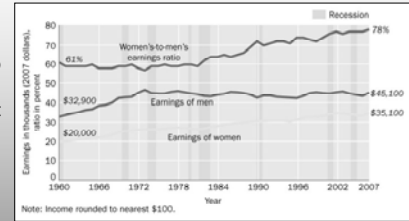
1. Employers with federal contracts of more than \$50,000 per year must have written affirmative action plans. The objective of such programs is to ensure that minorities are represented within the organization in approximately the same proportion as in the surrounding community.
2. Affirmative action programs have been plagued by two problems.
 - a) The first problem involves quotas. In the beginning, many firms pledged to recruit and hire a certain number of minority members by a specific date. To achieve this goal, they were forced to consider only minority applicants for job openings.
 - b) The second problem is that not all businesspeople are in favor of affirmative action programs, although most such programs have been reasonably successful.
3. Congress created (and later strengthened) the *Equal Employment Opportunity Commission (EEOC)*, a government agency with the power to investigate complaints of employment discrimination and sue firms that practice it.
4. The threat of legal action has persuaded some corporations to

amend their hiring and promotional practices, but the discrepancy between men's and women's salaries still exists. (See Figure 2.4.)

Figure 2.4

Employment Practices

- Relative earnings of male and female workers
 - The ratio of women's to men's annual full-time earning was 78 percent in 2007, a new all-time high, up from 74 percent first reached in 1996



Source: U.S. Census Bureau, Current Population Survey, 1968 to 2008 Annual Social and Economic Supplements, *Income, Poverty, and Health Insurance Coverage in the United States: 2007*, issued August 2008, U.S. Census Bureau, U.S. Department of Commerce, p. 11.

At Issue

The United States has been at the forefront in negotiating opportunities and expanding rights for minorities. One of the more vocal “minorities” has been the women’s movement in this country. Women have fought persistently for equality, and many would say that they still have a long, hard battle ahead of them. **Should women be given additional rights, or do they already possess equal rights?**

Should Be Granted Additional Rights

- 1 Women are regularly discriminated against in the workplace in the areas of responsibility, pay, and advancement. Equal rights need to be secured in a federal amendment.
- 2 Existing laws protect men’s interests and frequently exclude a common interest for women.
- 3 The federal government and many insurance companies persist in discriminating against women in both Social Security provisions and similar pension plans.

Already Possess Equal Rights

- 1 The proposed federal legislation that would equalize women’s rights proposes no new rights or methods of redress not found elsewhere in either federal or state laws.
- 2 Existing laws that prohibit female participation in dangerous jobs actually protect women in ways that a federal law of equality would not permit.
- 3 The current Social Security laws give benefits to wives based on their husbands’ earnings regardless of whether the wives have ever paid into the Social Security program.

B. Training Programs for the Hard-Core Unemployed. Some firms have assumed the task of helping the *hard-core unemployed*: workers with little education or vocational training and a long history of unemployment.

1. Such workers require training; this training can be expensive and time consuming.

2. To share the costs, business and government have joined together in a number of cooperative programs. *The National Alliance of Business (NAB)* is a joint business-government program to train the hard-core unemployed.
 - a) The National Alliance's 5,000 members include companies of all sizes and industries as well as educators and community leaders.

X. CONCERN FOR THE ENVIRONMENT

Pollution is the contamination of water, air, or land through the actions of people in an industrialized society.

1. For several decades, environmentalists have been warning us about the dangers of industrial pollution.
2. Unfortunately, business and government leaders either ignored the problem or weren't concerned about it until pollution became a threat to life and health in America.
3. Today, Americans expect business and government leaders to take swift action to clean up our environment—and to keep it clean.

Extra Example: *Most air pollution in U.S. cities is generated locally, but that fact may be changing. The U.S. Environmental Protection Agency estimated that on certain days nearly 25 percent of the particulate matter in the skies above Los Angeles can be traced to China. Some experts predict that China could one day account for a third of all California's air pollution. What can be done when pollution is created by sovereign nations over which American law has no control?*

(Source: "China's Growing Pollution Reaches U.S.," Democratic Underground, accessed February 18, 2009, from <http://www.democraticunderground.com/discuss/duboard.php?>)

A. **Effects of Environmental Legislation.** As in other areas of concern to our society, legislation and regulations play a crucial role in pollution control. The major environmental laws are described in Table 2.5.

The Environmental Protection Agency (EPA) is the federal agency charged with enforcing laws designed to protect the environment. Some business owners and managers take the position that environmental standards are too strict. Consequently, it has often been necessary for the EPA to take legal action to force firms to install antipollution equipment and clean up waste storage areas. Experience has shown that the combination of environmental legislation, voluntary compliance, and EPA action can succeed in cleaning up the environment and keeping it clean.

Table 2.5

Major Environmental Laws	
National Environmental Policy Act (1970)	Established EPA to enforce federal environmental laws
Clean Air Amendment (1970)	Automotive, aircraft, and factory emission standards
Water Quality Improvement Act (1970)	Strengthened water regulations; provided for large fines
Resource Recovery Act (1970)	Enlarged solid-waste disposal program; EPA enforcement
Water Pollution Control Act Amendment (1972)	Standards for cleaning navigable streams/lakes; elimination of harmful waste disposal by 1985
Noise Control Act (1972)	Standards for major sources of noise; EPA advises FAA on standards for planes

Major Environmental Laws (cont'd)	
Clean Air Act Amendment (1977)	New deadlines for cleaning up polluted areas; review of air quality standards
Resource Conservation and Recovery Act (1984)	Federal regulation of potentially dangerous solid-waste disposal
Clean Air Act Amendment (1987)	National air quality standard for ozone
Oil Pollution Act (1990)	Expanded oil spill prevention and response activities; established the Oil Spill Liability Trust Fund
Clean Air Act Amendments (1990)	Motor vehicles must be equipped with onboard systems to control about 90% of refueling vapors

1. **Water Pollution.** The Clean Air Act has been credited with greatly improving the condition of the waters in the United States. However, the task of water cleanup has proved to be extremely complicated and costly because of pollution runoff and toxic contamination. Yet improved water quality is not only necessary, but it is also achievable. Today, acid rain, which results from sulfur emitted by smokestacks in industrialized areas, is destroying many lakes and reservoirs.

Using the Boxed Inserts

Jump-Starting Your Career:

Volunteering for Experience

Suggested Question 1. Ask the class to share their experiences with volunteer work. What specific contribution did they make to the organization? How did they personally benefit from the experience? Do they have any insights that would be helpful to other students when volunteering?

Use the class's input to demonstrate real-life examples of the benefits of volunteering to both the organization and the volunteer. Sharing volunteer experiences with their peers should help to legitimize and promote volunteerism among the students.

Suggested Question 2. Is it ethical for someone to do volunteer work to promote their business? For example, it is not unusual for stockbrokers and insurance salespeople to volunteer for charity work (i.e., Red Cross, Heart Association, March of Dimes, etc.) with the primary motive to meet and develop prospective clients.

While it is always difficult to judge a person's true intentions, as long as the volunteer provides a contribution to the charity, it would appear they are fulfilling their obligation to the organization. If in the process they also develop business leads and connections, it doesn't appear that harm was done to any party. There are many environments in which people network for both business and social purposes.

2. **Air Pollution.** Aviation emissions are a potentially significant and growing percentage of greenhouse gases that contribute to global warming. Usually, two or three factors combine to form air pollution in any given location.
 - a) The first factor is large amounts of carbon monoxide and hydrocarbons emitted by many motor vehicles concentrated in a relatively small area.
 - b) The second factor is the smoke and other pollutants emitted by manufacturing facilities.
 - c) The third factor is the combination of weather and geography.
 - d) Air pollution control efforts are encouraging. The EPA estimates that the Clean Air Act eventually will result in the removal of 56 billion pounds of pollution from the air each year, thus measurably reducing lung disease, cancer, and other serious health problems.
3. **Land Pollution.** Today, land pollution is a serious problem.
 - a) The fundamental issues are basically twofold.
 - (1) The first issue is how to restore damaged or contaminated land at a reasonable cost.
 - (2) The second issue is how to protect unpolluted land from future damage.
 - b) The land pollution problem has been worsening over the past few years because modern technology has continued to produce more and more chemical and radioactive wastes.

- c) To help pay for the enormous costs of cleaning up land polluted with chemicals, Congress created a \$1.6 billion Superfund in 1980.

► **Video Segment 2c—Concept: Recycling (Time 3:40)**

- 4. **Noise Pollution.** The Noise Control Act of 1972 established noise emission standards for aircraft and airports, railroads, and interstate motor carriers. Noise levels can be reduced by two methods.
 - a) The source of noise pollution can be isolated as much as possible, and engineers can modify machinery and equipment to reduce noise levels.
 - b) If it is impossible to reduce industrial noise to acceptable levels, workers should be required to wear earplugs to guard against permanent hearing damage.

B. Who Should Pay for a Clean Environment? Government and business are spending billions of dollars annually to reduce pollution.

- 1. Current estimates of the annual costs of improving the environment are \$45 billion to control air pollution, \$33 billion to control water pollution, and \$12 billion to treat hazardous wastes.
- 2. Much of the money required to purify the environment is supposed to come from already depressed industries.
- 3. The big question is, “Who will pay for the environmental cleanup?”
 - a) Business leaders believe tax money should be used to clean up the environment.

Using the Boxed Inserts

The Business of Green:

Best Foot Forward for Timberland

Suggested Question 1. Are Timberland’s “green index tags” a differential advantage for buying Timberland’s shoes over competitive shoe brands?

At this point in time, it appears that the primary value of Timberland’s “green index tags” is to reinforce Timberland as a socially conscious company and strengthen the brand’s reputation as being ecologically proactive. This obviously has a strong appeal to consumers who are concerned about the environment. However, there are currently not enough outdoor boot manufacturers that have adopted this approach to allow for competitive comparisons and buying decisions based on this factor alone.

Suggested Question 2. Do you agree with Timberland’s CEO that as more shoe companies add such labeling, “It will become automatic for shoppers to compare green tags among brands, just like they compare price and color. When that happens, we’ll all be fighting to have the best tag ...”?

Before this happens, it is reasonable to assume that the shoe industry would have to agree to a universal standard for eco-labeling so that the same criteria were used when comparing the various shoe brands. Once eco-labeling is standardized, it remains to be seen how important a “green index” is versus shoe design, features, color, and price to the final buying decision.

- b) Environmentalists believe that the cost of proper treatment and disposal of industrial wastes is an expense of doing business and therefore the responsibility of the manufacturer.
- c) In either case, consumers will probably pay a large part of the cost either in the form of taxes or through higher prices.

Teaching Tip: Bring in three to five products from home. Write down the approximate prices. Tell students how much each cost, and then ask how much more they would be willing to pay in order for these products to be “environmentally friendly.” Products might include an apple or other fruit that was grown with pesticides, a package of non-biodegradable garbage bags, and so forth.

XI. IMPLEMENTING A PROGRAM OF SOCIAL RESPONSIBILITY

A firm’s decision to be socially responsible is a step in the right direction—but only a first step. The firm must then develop and implement a tangible program to reach this goal.

A. **Developing a Program of Social Responsibility.** The following steps are required to implement a social responsibility program.

1. **Commitment of Top Executives.** Without the support of top executives, any program will soon falter and become ineffective.
2. **Planning.** A committee of managers should be appointed to plan the program.
3. **Appointment of a Director.** A top-level executive should be chosen to direct the organization’s activities in implementing the plan.
4. **The Social Audit.** The director of the program should prepare a social audit for the firm at specified intervals. A *social audit* is a comprehensive report of what an organization has done, and is doing, with regard to social issues that affect it.

B. **Funding the Program.** Like any other program, a program to improve social responsibility must be funded. Funding can come from three sources.

1. Management can pass the cost on to consumers in the form of higher prices.
2. The corporation may be forced to absorb the cost of the program if, for example, the competitive situation does not permit a price increase.
3. The federal government may pay for all or part of the cost through special tax reductions or other incentives.

► ***Video Segment 2d—Video Case 2.1: At New Belgium Brewing, Greater Efficiency Is Blowing in the Wind (10:00)***

2.9 TRANSPARENCY ACETATES

<p>Pricks/Hughes/Kapoor, BUSINESS, 10th edition Figure 2.1 Factors That Affect the Level of Ethical Behavior in an Organization</p> <p>Factors That Affect the Level of Ethical Behavior in an Organization</p> <p>Source: Based on G.C. Ferrell and Larry Gresham, "A Contingency Framework for Understanding Ethical Decision Making in Marketing," <i>Journal of Marketing</i>, summer 1985, p. 19.</p> <p>© 2010 Cengage Learning. All Rights Reserved. May not be scanned, copied or duplicated, or posted to a publicly accessible website, in whole or in part.</p>	<p>Pricks/Hughes/Kapoor, BUSINESS, 10th edition Table 2.1 Guidelines for Making Ethical Decisions</p> <p>Guidelines for Making Ethical Decisions</p> <ol style="list-style-type: none"> 1. Listen and learn. 2. Identify the ethical issues. 3. Create and analyze options. 4. Evaluate the available options. 5. Evaluate your actions and actions on the part of others. <p>Source: Tom Rusk, with D. Patrick Miller, "Doing the Right Thing," <i>Sky (Delta Airlines)</i>, August 1993, pp. 18-22.</p> <p>© 2010 Cengage Learning. All Rights Reserved. May not be scanned, copied or duplicated, or posted to a publicly accessible website, in whole or in part.</p>	<p>Pricks/Hughes/Kapoor, BUSINESS, 10th edition Table 2.2 Early Government Regulations That Affected American Business</p> <table border="1"> <thead> <tr> <th>Government Regulation</th> <th>Major Provisions</th> </tr> </thead> <tbody> <tr> <td>Shawnee National Act (1800)</td> <td>First federal act to regulate business practices, provided protection for consumers and helped to regulate quality.</td> </tr> <tr> <td>Shannon National Act (1800)</td> <td>Established national supervision of interstate sale of food and drugs.</td> </tr> <tr> <td>Meat Inspection Act (1800)</td> <td>Provided for federal supervision of interstate sale of meat and meat products.</td> </tr> <tr> <td>Federal Trade Commission Act (1914)</td> <td>Created the Federal Trade Commission to investigate illegal trade practices.</td> </tr> <tr> <td>Clayton Antitrust Act (1914)</td> <td>Established many forms of price discrimination that gave large businesses a competitive advantage over smaller firms.</td> </tr> </tbody> </table> <p>Source: Tim Rusk, with D. Patrick Miller, "Doing the Right Thing," <i>Sky (Delta Airlines)</i>, August 1993, pp. 18-22.</p> <p>© 2010 Cengage Learning. All Rights Reserved. May not be scanned, copied or duplicated, or posted to a publicly accessible website, in whole or in part.</p>	Government Regulation	Major Provisions	Shawnee National Act (1800)	First federal act to regulate business practices, provided protection for consumers and helped to regulate quality.	Shannon National Act (1800)	Established national supervision of interstate sale of food and drugs.	Meat Inspection Act (1800)	Provided for federal supervision of interstate sale of meat and meat products.	Federal Trade Commission Act (1914)	Created the Federal Trade Commission to investigate illegal trade practices.	Clayton Antitrust Act (1914)	Established many forms of price discrimination that gave large businesses a competitive advantage over smaller firms.				
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All Rights Reserved. May not be scanned, copied or duplicated, or posted to a publicly accessible website, in whole or in part.</p>	Major Environmental Law (Year)	Major Provisions	Clean Air Act (1970)	Established the Environmental Protection Agency (EPA) to reduce air pollution and regulate air quality.	Clean Water Act (1972)	Established the National Sanitation Foundation to regulate water quality and protect the nation's water resources.	Resource Conservation and Recovery Act (1976)	Established the Superfund program to regulate hazardous waste and provide for cleanup costs.	Endangered Species Act (1973)	Established the Endangered Species Act to protect species that are at risk of extinction.	Antiquities Act (1906)	Established the National Antiquities Act to protect historic and prehistoric objects of scientific interest.	Antiquities Act (1906)	Established the National Antiquities Act to protect historic and prehistoric objects of scientific interest.	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All Rights Reserved. May not be scanned, copied or duplicated, or posted to a publicly accessible website, in whole or in part.</p>	<p>Pricks/Hughes/Kapoor, BUSINESS, 10th edition Figure 2.B Class Exercise</p> <p>Class Exercise</p> <p>How ethical are the following behaviors?</p> <ol style="list-style-type: none"> 1. The manufacturer of a leading insect spray changes the formulation of its product to eliminate problems experienced by people allergic to some of the ingredients. The manufacturer does not inform consumers. The change in the formula will make the product less effective. 2. A bribe is paid to a company official in the island country of Kocomo to facilitate the movement of a product in that country. Bribes are a normal and expected business practice in Kocomo. 3. A beer company engages in an advertising campaign that is targeted to undergraduate college students, many of whom are under the legal drinking age. 4. A rental car company strongly advises customers to purchase insurance when renting a car. Although most personal car insurance covers the insured motorist when driving a rental car, most rental car customers are not aware of this. 5. Consumer Reports publishes the results of a study on shampoos that provides strong evidence that all shampoos are basically the same. In fact, the results suggest that a mild dish-washing liquid will do the same job for a lot less money. After the study is published, a leading shampoo marketer claims that its product will remove oil, add body, condition, and replenish hair better than any competing shampoo and do it all in one step. <p>© 2010 Cengage Learning. All Rights Reserved. May not be scanned, copied or duplicated, or posted to a publicly accessible website, in whole or in part.</p>
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 Figure 2.C Debate Issue

Debate Issue

Can ethics be taught?

YES

- Courses on business ethics can teach students how to analyze the ethical dilemmas faced by today's practicing managers. By focusing on the various factors that influence making decisions—such as individual beliefs and values, pressure from peers and managers, and opportunity—students can understand why decision makers behave as they do. Many companies and colleges are instituting ethical training programs to teach the principles of ethical decision making. As practicing managers, students can apply what they have learned to ethical dilemmas they face.

NO

- Ethics cannot be taught. An individual's beliefs, values, and morals are developed long before he or she enters school or begins a career. Every person's morality is shaped by his or her social experience—family, friends, school, and church. Because of this, no ethics course can change a person's deep-rooted and long-held beliefs and values. Learning ethical principles does not guarantee that they will be used. People with strong ethical foundations are more likely to behave ethically; people without such values are more inclined to behave unethically.

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 Figure 2.D Chapter Quiz

Chapter Quiz

- Ethical issues often arise out of a business's relationship with:
 - investors.
 - customers.
 - employees.
 - creditors.
 - all of these.
- The factor that refers to the amount of latitude within an organization that allows an employee to behave unethically is called:
 - the code of ethics.
 - company policies and procedures.
 - the individual.
 - opportunity.
 - social pressures.
- Peter Marwick, one of the largest accounting firms in the world, has extensive international operations. Operating internationally makes ethical decision making especially difficult because:
 - bribes and payoffs are acceptable business activities in the United States.
 - Americans are more ethical than foreigners.
 - many foreigners do not speak English.
 - the U.S. government cannot prosecute American companies for unethical or illegal acts committed on foreign soil.
 - standards of ethical behavior vary from country to country.
- Proponents of the stakeholder model use which of the following arguments to support their position?
 - Business managers are responsible primarily to stockholders.
 - Business has the technical, financial, and managerial resources needed to tackle today's complex social issues.
 - Corporate time, money, and talent should be used to maximize profits, not to solve society's problems.
 - Social problems affect society in general, so business probably should not be expected to solve such problems.
 - Social issues are the sole responsibility of government officials elected to represent the people.
- A head of police, a loan officer at a local bank, tells you that her annual salary is \$15,000 less than that of her male counterparts. She says further that her education and banking experience are equivalent or superior to those of most of these men. She should file a complaint with the:
 - Better Business Bureau.
 - Equal Employment Opportunity Commission.
 - National Organization for Women.
 - "Open Window Shows."
 - National Alliance of Business.

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 Figure 2.E Special Areas of Concern for Managerial Ethics

Special Areas of Concern for Managerial Ethics

Areas of Concern	Sample Issues
Relationship of the firm to the employee	Hiring and firing Wages and working conditions Privacy
Relationship of the employee to the firm	Conflict of interest Secrecy Honesty and expense accounts
Relationship of the firm to customers	Fairness of pricing Honesty in advertising Product safety Right of privacy

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 Figure 2.F Major Consumerism Forces

Major Consumerism Forces

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POWERPOINT SLIDES (BASIC AND PREMIUM)

<p>Chapter Two</p> <p>Being Ethical and Socially Responsible</p>	<p>Chapter Overview</p> 	<p>Learning Objectives</p> <ol style="list-style-type: none"> 1. Understand what is meant by business ethics. 2. Identify the types of ethical concerns that arise in the business world. 3. Discuss the factors that affect the level of ethical behavior in organizations. 4. Explain how ethical decision making can be encouraged. 5. Describe how our current views on the social responsibility of business have evolved. 6. Explain the two views on the social responsibility of business and understand the arguments for and against increased social responsibility. 										
<p>Learning Objectives (cont'd)</p> <ol style="list-style-type: none"> 7. Discuss the factors that led to the consumer movement and list some of its results. 8. Analyze how present employment practices are being used to counteract past abuses. 9. Describe the major types of pollution, their causes, and their cures. 10. Identify the steps a business must take to implement a program of social responsibility. 	<p>Business Ethics Defined</p> <ul style="list-style-type: none"> • Ethics <ul style="list-style-type: none"> – The study of right and wrong and of the morality of the choices individuals make – An ethical decision is one that is "right" according to some standard of behavior • Business ethics <ul style="list-style-type: none"> – The application of moral standards to business situations 	<p>Ethical Issues</p> <ul style="list-style-type: none"> • Fairness and honesty <ul style="list-style-type: none"> – Businesspeople are expected to refrain from knowingly deceiving, misrepresenting, or intimidating others • Organizational relationships <ul style="list-style-type: none"> – A businessperson should put the welfare of others and that of the organization above their own personal welfare • Conflict of interest <ul style="list-style-type: none"> – Issues arise when a businessperson takes advantage of a situation for personal gain rather than for the employer's interest • Communications <ul style="list-style-type: none"> – Business communications that are false, misleading, or deceptive are both illegal and unethical 										
<p>Special Areas of Concern for Managerial Ethics</p> <table border="1"> <thead> <tr> <th>Areas of Concern</th> <th>Sample Issues</th> </tr> </thead> <tbody> <tr> <td>Relationship of the firm to the employee</td> <td>Hiring and firing Wages and working conditions Privacy</td> </tr> <tr> <td>Relationship of the employee to the firm</td> <td>Conflict of interest Secrecy Honesty and expense accounts</td> </tr> <tr> <td>Relationship of the firm to customers</td> <td>Fairness of pricing Honesty in advertising Product safety Right of privacy</td> </tr> </tbody> </table>	Areas of Concern	Sample Issues	Relationship of the firm to the employee	Hiring and firing Wages and working conditions Privacy	Relationship of the employee to the firm	Conflict of interest Secrecy Honesty and expense accounts	Relationship of the firm to customers	Fairness of pricing Honesty in advertising Product safety Right of privacy	<p>Factors Affecting Ethical Behavior (cont.)</p>  <p><small>Source: Based on D. C. Ferrell and Larry Gresham, "A Contingency Framework for Understanding Ethical Decision Making in Marketing," <i>Journal of Marketing</i>, Summer 1985, p. 85.</small></p>	<p>Factors Affecting Ethical Behavior</p> <ul style="list-style-type: none"> • Three general sets of factors appear to influence the standards of behavior in an organization <ul style="list-style-type: none"> – Individual factors <ul style="list-style-type: none"> • Individual knowledge of an issue • Personal values • Personal goals – Social factors <ul style="list-style-type: none"> • Cultural norms • Coworkers • Significant others • Use of the Internet – Opportunity <ul style="list-style-type: none"> • Presence of opportunity • Ethical codes • Enforcement 		
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<p>Encouraging Ethical Behavior</p> <ul style="list-style-type: none"> • External to a specific organization <ul style="list-style-type: none"> – Governmental legislation and regulations – Trade association guidelines • Within an organization <ul style="list-style-type: none"> – Code of ethics <ul style="list-style-type: none"> • A written guide to acceptable and ethical behavior as defined by an organization; it outlines policies, standards, and punishments – Organizational environment <ul style="list-style-type: none"> • Management direction • Employee training • Ethics officer • Whistle-blowing <ul style="list-style-type: none"> – Informing the press or government officials about unethical practices within one's organization 	<p>Guidelines for Making Ethical Decisions</p> <table border="1"> <tbody> <tr> <td>1. Listen and learn.</td> <td>Recognize the problem or opportunity; be sure you understand others.</td> </tr> <tr> <td>2. Identify the ethical issues.</td> <td>Examine how others are affected by the situation; understand the viewpoint of those involved in the decision of its consequences.</td> </tr> <tr> <td>3. Create and analyze options.</td> <td>Put aside strong feelings; come up with alternatives; assess which options offer the best results.</td> </tr> <tr> <td>4. Identify the best option from your point of view.</td> <td>Consider the option and test it against criteria such as respect, understanding, caring, fairness, honesty, and openness.</td> </tr> <tr> <td>5. Explain your decision and resolve any differences that arise.</td> <td>May involve arbitration or additional proposals.</td> </tr> </tbody> </table>	1. Listen and learn.	Recognize the problem or opportunity; be sure you understand others.	2. Identify the ethical issues.	Examine how others are affected by the situation; understand the viewpoint of those involved in the decision of its consequences.	3. Create and analyze options.	Put aside strong feelings; come up with alternatives; assess which options offer the best results.	4. Identify the best option from your point of view.	Consider the option and test it against criteria such as respect, understanding, caring, fairness, honesty, and openness.	5. Explain your decision and resolve any differences that arise.	May involve arbitration or additional proposals.	<p>"The Six Pillars of Character"</p> <ol style="list-style-type: none"> 1. Trustworthiness 2. Respect 3. Responsibility 4. Fairness 5. Caring 6. Citizenship <p><small>For more detail, go to the website by clicking on this hotlink. Source: Josephson Institute of Ethics, "Resources Making Ethical Decisions: The Six Pillars of Character," http://www.josephsoninstitute.org/MED/EE2-Diploma.htm.</small></p>
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<p>Using the Internet</p> <ul style="list-style-type: none"> • The International Business Ethics Institute is a private nonprofit educational organization that promotes global business ethics and corporate responsibility. <p>http://www.business-ethics.org</p>	<p>Debate Issue: Can Ethics Be Taught?</p> <p>YES</p> <p>Courses on business ethics can teach students how to analyze the ethical dilemmas faced by today's practicing managers. By focusing on the various factors that influence making decisions—such as individual beliefs and values, pressure from peers and managers, and opportunity—students can understand why decision makers behave as they do. Many companies and colleges are instituting ethical training programs to teach the principles of ethical decision making. As practicing managers, students can apply what they have learned to ethical dilemmas they face.</p> <p>NO</p> <p>Ethics cannot be taught. An individual's beliefs, values, and morals are developed long before he or she enters school or begins a career. Every person's morality is shaped by his or her social experience—family, friends, school, and church. Because of this, no ethics course can change a person's deep-rooted and long-held beliefs and values. Learning ethical principles does not guarantee that they will be used. People with strong ethical foundations are more likely to behave ethically; people without such values are more inclined to behave unethically.</p>	<p>Class Exercise</p> <ul style="list-style-type: none"> • How ethical are the following behaviors? <ul style="list-style-type: none"> – The manufacturer of a leading insect spray changes the formulation of its product to eliminate problems experienced by people allergic to some of the ingredients. The manufacturer does not inform consumers. The change in the formula will make the product less effective. – A bribe is paid to a company official in the island country of Kocomo to facilitate the movement of a product in that country. Bribes are a normal and expected business practice in Kocomo. 										

<p>Class Exercise (cont'd)</p> <ul style="list-style-type: none"> How ethical are the following behaviors? <ul style="list-style-type: none"> A beer company engages in an advertising campaign that is targeted to undergraduate college students, many of whom are under the legal drinking age. A rental car company strongly advises customers to purchase insurance when renting a car. Although most personal car insurance covers the insured motorist when driving a rental car, most rental car customers are not aware of this. 	<p>Class Exercise (cont'd)</p> <ul style="list-style-type: none"> How ethical are the following behaviors? <ul style="list-style-type: none"> Consumer Reports publishes the results of a study on shampoos that provides strong evidence that all shampoos are basically the same. In fact, the results suggest that a mild dish-washing liquid will do the same job for a lot less money. After the study is published, a leading shampoo marketer claims that its product will remove oil, add body, condition, and replenish hair better than any competing shampoo and do it all in one step. 	<p>Social Responsibility</p> <ul style="list-style-type: none"> The recognition that business activities have an impact on society and the consideration of that impact in business decision making <ul style="list-style-type: none"> Social responsibility costs money but is also good business How socially responsible a firm acts may affect the decisions of customers to do or continue to do business with the firm. 																												
<p>Class Exercise</p> <ul style="list-style-type: none"> Give some examples of socially responsible activities by organizations in your area or other national or international organizations with which you are familiar. Have these activities affected your opinion of the organization? 	<p>The Evolution of Social Responsibility in Business</p> <ul style="list-style-type: none"> Early 1900s: Caveat Emptor <ul style="list-style-type: none"> A Latin phrase meaning "let the buyer beware" <ul style="list-style-type: none"> what you see is what you get, and if it's not what you expected, too bad Most people believed that competition and the marketplace would correct abuses The government became involved only in cases of obvious abuse 	<p>Early Government Regulations</p>  <table border="1"> <caption>TABLE 2.2 EARLY GOVERNMENT REGULATIONS THAT AFFECTED AMERICAN BUSINESS</caption> <thead> <tr> <th>Government Regulation</th> <th>Major Provisions</th> </tr> </thead> <tbody> <tr> <td>Interstate Commerce Act (1887)</td> <td>First federal act to regulate business practices; provided regulation of railroads and shipping rates</td> </tr> <tr> <td>Sherman Antitrust Act (1890)</td> <td>Prevented monopolies or mergers where competition was endangered</td> </tr> <tr> <td>Pure Food and Drug Act (1906)</td> <td>Established limited supervision of interstate sale of food and drugs</td> </tr> <tr> <td>Meat Inspection Act (1906)</td> <td>Provided for limited supervision of interstate sale of meat and meat products</td> </tr> <tr> <td>Federal Trade Commission Act (1914)</td> <td>Created the Federal Trade Commission to investigate illegal trade practices</td> </tr> <tr> <td>Clayton Antitrust Act (1914)</td> <td>Eliminated many forms of price discrimination that gave large businesses a competitive advantage over smaller firms</td> </tr> </tbody> </table>	Government Regulation	Major Provisions	Interstate Commerce Act (1887)	First federal act to regulate business practices; provided regulation of railroads and shipping rates	Sherman Antitrust Act (1890)	Prevented monopolies or mergers where competition was endangered	Pure Food and Drug Act (1906)	Established limited supervision of interstate sale of food and drugs	Meat Inspection Act (1906)	Provided for limited supervision of interstate sale of meat and meat products	Federal Trade Commission Act (1914)	Created the Federal Trade Commission to investigate illegal trade practices	Clayton Antitrust Act (1914)	Eliminated many forms of price discrimination that gave large businesses a competitive advantage over smaller firms														
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<p>The Evolution of Social Responsibility in Business (cont'd)</p> <ul style="list-style-type: none"> The Great Depression and beyond <ul style="list-style-type: none"> Pressure mounted for the government to help with the economy and social conditions Franklin D. Roosevelt instituted economic and social programs Laws were passed to correct business abuses As government has increased, so has everyone's awareness of the social responsibility of business 	<p>Two Views of Social Responsibility</p> <ul style="list-style-type: none"> Economic model <ul style="list-style-type: none"> The view that society will benefit most when business is left alone to produce and market profitable products that society needs Managerial attitude: social responsibility is someone else's job; the firm's primary responsibility is to make a profit for its shareholders Firms are assumed to fulfill their social responsibility indirectly by paying the taxes that are used to meet the needs of society Social responsibility is the problem of government, environmental groups, and charitable foundations 	<p>Two Views of Social Responsibility (cont'd)</p> <ul style="list-style-type: none"> Socioeconomic model <ul style="list-style-type: none"> The concept that business should emphasize not only profits but also the impact of its decisions on society The corporation is a creation of society and it must act as any responsible citizen would Firms take pride in their social responsibility obligations It is in the best interest of firms to take the initiative in social responsibility matters 																												
<p>The Pros and Cons of Social Responsibility</p> <p>Arguments for increased social responsibility:</p> <ol style="list-style-type: none"> Because business is part of our society, it cannot ignore social issues. Business has the technical, financial, and managerial resources needed to tackle today's complex social issues. By helping resolve social issues, business can create a more stable environment for long-term profitability. Socially responsible decision making by firms can prevent increased government intervention, which would force businesses to do what they fail to do voluntarily. 	<p>The Pros and Cons of Social Responsibility (cont'd)</p> <p>Arguments against increased social responsibility</p> <ol style="list-style-type: none"> Business managers are primarily responsible to stockholders, so management must be concerned with providing a return on owners' investments. Corporate time, money, and talent should be used to maximize profits, not to solve society's problems. Social problems affect society in general, so individual businesses should not be expected to solve these problems. Social issues are the responsibility of government officials who are elected for that purpose and who are accountable to the voters for their decisions. 	<p>A Comparison of the Economic and Socioeconomic Models of Social Responsibility as Implemented in Business</p> <table border="1"> <thead> <tr> <th>Economic Model</th> <th>Socioeconomic Model</th> </tr> </thead> <tbody> <tr> <td>Primary Emphasis</td> <td>Primary Emphasis</td> </tr> <tr> <td>Production</td> <td>Quality of life</td> </tr> <tr> <td>Exploitation of natural resources</td> <td>Conservation of natural resources</td> </tr> <tr> <td>Internal, market-based decisions</td> <td>Market-based decisions, with some community controls</td> </tr> <tr> <td>Economic return (profit)</td> <td>Balance of economic return and social return</td> </tr> <tr> <td>Firm's or manager's interest</td> <td>Firm's and community's interests</td> </tr> <tr> <td>Minor role for government</td> <td>Active government</td> </tr> </tbody> </table> <p><small>Source: Adapted from John Davis, Robert C. Frederick, and Robert L. Shuman, <i>Business and Society: Concepts and Policy Issues</i>. New York: McGraw-Hill, 1980, p. 9.</small></p>	Economic Model	Socioeconomic Model	Primary Emphasis	Primary Emphasis	Production	Quality of life	Exploitation of natural resources	Conservation of natural resources	Internal, market-based decisions	Market-based decisions, with some community controls	Economic return (profit)	Balance of economic return and social return	Firm's or manager's interest	Firm's and community's interests	Minor role for government	Active government												
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<p align="center">Employment Practices</p> <ul style="list-style-type: none"> The last five decades have seen progress toward affirming the rights of employees to equal treatment in the workplace <ul style="list-style-type: none"> Minority <ul style="list-style-type: none"> A racial, religious, political, national, or other group regarded as different from the larger group of which it is a part and that is often singled out for unfavorable treatment A number of anti-discrimination laws were passed in the 1960s and 1970s but abuses still exist 	<p align="center">Employment Practices (cont'd)</p> <ul style="list-style-type: none"> Comparative income levels <ul style="list-style-type: none"> Median household incomes of white, black, Hispanic, and Asian workers in 2007 <p><small>Source: U.S. Census Bureau, Current Population Survey, 1968 to 2008 Annual Social and Economic Supplements. Income, Poverty, and Health Insurance Coverage in the United States: 2007. Issued August 2008. U.S. Census Bureau, U.S. Department of Commerce, p. 6.</small></p>	<p align="center">Employment Practices (cont'd)</p> <ul style="list-style-type: none"> Affirmative Action programs <ul style="list-style-type: none"> Plans designed to increase the number of minority employees at all levels within an organization Objective is to ensure that minorities are represented in the organization in approximately the same proportion as the surrounding community Written plans are required for employers with federal contracts of more than \$50,000 per year Problems arise from the use of quotas and charges of reverse discrimination Equal Employment Opportunity Commission (EEOC) <ul style="list-style-type: none"> The federal agency empowered to investigate complaints of employment discrimination and to sue firms that practice it 																																						
<p align="center">Employment Practices (cont'd)</p> <ul style="list-style-type: none"> Relative earnings of male and female workers <ul style="list-style-type: none"> The ratio of women's to men's annual full-time earning was 78 percent in 2007, a new all-time high, up from 74 percent first reached in 1996 <p><small>Source: U.S. Census Bureau, Current Population Survey, 1969 to 2008 Annual Social and Economic Supplements. Income, Poverty, and Health Insurance Coverage in the United States: 2007. Issued August 2008. U.S. Census Bureau, U.S. Department of Commerce, p. 11.</small></p>	<p align="center">Employment Practices (cont'd)</p> <ul style="list-style-type: none"> Training programs for the hard-core unemployed <ul style="list-style-type: none"> Hard-core unemployed <ul style="list-style-type: none"> Workers with little education or vocational training and a long history of unemployment National Alliance of Business (NAB) <ul style="list-style-type: none"> A joint business-government program to train the hard-core unemployed 	<p align="center">New Belgium Brewing Social Responsibility</p>																																						
<p align="center">Concern for the Environment</p> <ul style="list-style-type: none"> Pollution <ul style="list-style-type: none"> The contamination of water, air, or land through the actions of people in an industrialized society Environmental Protection Agency (EPA) <ul style="list-style-type: none"> The federal agency charged with enforcing laws affecting the environment Safeguarding the environment requires <ul style="list-style-type: none"> Environmental legislation Voluntary compliance EPA enforcement actions 	<p align="center">Major Environmental Laws</p> <table border="1"> <tr> <td>National Environmental Policy Act (1970)</td> <td>Established EPA to enforce federal environmental laws</td> </tr> <tr> <td>Clean Air Amendment (1970)</td> <td>Automotive, aircraft, and factory emission standards</td> </tr> <tr> <td>Water Quality Improvement Act (1970)</td> <td>Strengthened water regulations; provided for large fines</td> </tr> <tr> <td>Resource Recovery Act (1970)</td> <td>Enlarged solid-waste disposal program; EPA enforcement</td> </tr> <tr> <td>Water Pollution Control Act Amendment (1972)</td> <td>Standards for cleaning navigable streams/lakes; elimination of harmful waste disposal by 1985</td> </tr> <tr> <td>Noise Control Act (1972)</td> <td>Standards for major sources of noise; EPA advises FAA on standards for planes</td> </tr> <tr> <td>Clean Air Act Amendment (1977)</td> <td>New deadlines for cleaning up polluted areas; review of air quality standards</td> </tr> </table>	National Environmental Policy Act (1970)	Established EPA to enforce federal environmental laws	Clean Air Amendment (1970)	Automotive, aircraft, and factory emission standards	Water Quality Improvement Act (1970)	Strengthened water regulations; provided for large fines	Resource Recovery Act (1970)	Enlarged solid-waste disposal program; EPA enforcement	Water Pollution Control Act Amendment (1972)	Standards for cleaning navigable streams/lakes; elimination of harmful waste disposal by 1985	Noise Control Act (1972)	Standards for major sources of noise; EPA advises FAA on standards for planes	Clean Air Act Amendment (1977)	New deadlines for cleaning up polluted areas; review of air quality standards	<p align="center">Major Environmental Laws (cont'd)</p> <table border="1"> <tr> <td>Resource Conservation and Recovery Act (1984)</td> <td>Federal regulation of potentially dangerous solid-waste disposal</td> </tr> <tr> <td>Clean Air Act Amendment (1987)</td> <td>National air quality standard for ozone</td> </tr> <tr> <td>Oil Pollution Act (1990)</td> <td>Expanded oil spill prevention and response activities; established the Oil Spill Liability Trust Fund</td> </tr> <tr> <td>Clean Air Act Amendments (1990)</td> <td>Motor vehicles must be equipped with onboard systems to control about 90% of refueling vapors</td> </tr> <tr> <td>Food Quality Protection Act (1996)</td> <td>Requirements included a new safety standard (reasonable certainty of no harm) that must be applied to all pesticides used on foods</td> </tr> </table>	Resource Conservation and Recovery Act (1984)	Federal regulation of potentially dangerous solid-waste disposal	Clean Air Act Amendment (1987)	National air quality standard for ozone	Oil Pollution Act (1990)	Expanded oil spill prevention and response activities; established the Oil Spill Liability Trust Fund	Clean Air Act Amendments (1990)	Motor vehicles must be equipped with onboard systems to control about 90% of refueling vapors	Food Quality Protection Act (1996)	Requirements included a new safety standard (reasonable certainty of no harm) that must be applied to all pesticides used on foods														
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<p align="center">Concern for the Environment (cont'd)</p> <ul style="list-style-type: none"> Water pollution <ul style="list-style-type: none"> Water quality has improved in recent years, but high levels of toxic pollutants are still found in some waters Pollutants threaten the health of both people and wildlife Cleanup is complicated and costly because of runoff and toxic contamination Acid rain from sulfur emissions of industrial smokestacks is contributing to the deterioration of coastal waters, lakes, and marine life 	<p align="center">Concern for the Environment (cont'd)</p> <ul style="list-style-type: none"> Air pollution <ul style="list-style-type: none"> Aviation emissions of carbon dioxide in the upper atmosphere are contributing to global warming Carbon monoxide and hydrocarbons emitted by motor vehicles and smoke and other pollutants emitted by manufacturing plants can be partially eliminated through pollution-control devices Weather and geography can contribute to air pollution 	<p align="center">Concern for the Environment (cont'd)</p> <ul style="list-style-type: none"> Land pollution <ul style="list-style-type: none"> Fundamental issues are how to restore damaged or contaminated land and how to protect unpolluted land from future damage Problem is worsening because technology produces chemical and radioactive waste There is a shortage of landfill space for waste disposal Incinerators help solve the landfill shortage problem, but they produce toxic ash Other causes of land pollution include strip-mining, nonselective cutting of forests, development of agriculture land for housing and industry The EPA has been criticized for its handling of the \$1.6 billion Superfund created in 1980 by Congress 																																						

<p>Concern for the Environment (cont'd)</p> <ul style="list-style-type: none"> Noise pollution <ul style="list-style-type: none"> Excessive noise can do physical harm Ways to reduce noise levels <ul style="list-style-type: none"> Isolating the source of the noise Modifying machinery and equipment If noise cannot be reduced, workers can be protected by wearing noise-reduction gear 	<p>Who Should Pay for a Clean Environment?</p> <ul style="list-style-type: none"> Governments and businesses spend billions annually to reduce pollution Much of the money required is supposed to come from already depressed industries A few firms have discovered it is cheaper to pay a fine than to install equipment for pollution control Many business leaders say tax money should be used because business is not the only source of pollution Environmentalists say the cost is an expense of doing business Consumers will probably pay a large part of the costs—either as taxes or in the form of higher prices 	<p>Implementing a Program of Social Responsibility</p> <ul style="list-style-type: none"> Developing a program of social responsibility <ul style="list-style-type: none"> Secure the commitment of top executives Plan the program Appoint a top-level executive as director to implement the plan Prepare a social audit <ul style="list-style-type: none"> A comprehensive report of what the organization has done and is doing with regard to social issues that affect it Funding the program <ul style="list-style-type: none"> Pass program costs on to consumers as higher prices Absorb the program costs as a business expense Seek tax reductions or other incentives 										
<p>Fortune's Most Admired Companies ✓</p> <table border="1"> <tr><td>International Paper</td></tr> <tr><td>United Parcel Service</td></tr> <tr><td>Starbucks</td></tr> <tr><td>Fortune Brands</td></tr> <tr><td>Walt Disney</td></tr> <tr><td>McDonald's</td></tr> <tr><td>Medco Health Solutions</td></tr> <tr><td>Herman Miller</td></tr> <tr><td>Weyerhaeuser</td></tr> <tr><td>Union Pacific</td></tr> </table> <p><small>Source: Fortune, "America's Most Admired Companies," Copyright © 2008, Time, Inc. All rights reserved. March 3, 2008.</small></p>	International Paper	United Parcel Service	Starbucks	Fortune Brands	Walt Disney	McDonald's	Medco Health Solutions	Herman Miller	Weyerhaeuser	Union Pacific	<p>Chapter Quiz ✓</p> <ol style="list-style-type: none"> Ethical issues often arise out of a business's relationship with <ol style="list-style-type: none"> investors. customers. employees. creditors. all of these. The factor that refers to the amount of latitude within an organization that allows an employee to behave unethically is called <ol style="list-style-type: none"> the code of ethics. company policies and procedures. the individual. opportunity. social pressure. 	<p>Chapter Quiz (cont'd) ✓</p> <ol style="list-style-type: none"> Peter Marwick, one of the largest accounting firms in the world, has extensive international operations. Operating internationally makes ethical decision making especially difficult because <ol style="list-style-type: none"> bribes and payoffs are acceptable business activities in the United States. Americans are more ethical than foreigners. many foreigners do not speak English. the U.S. government cannot prosecute American companies for unethical or illegal acts committed on foreign soil. standards of ethical behavior vary from country to country.
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<p>Chapter Quiz (cont'd) ✓</p> <ol style="list-style-type: none"> Proponents of the socioeconomic model use which of the following arguments to support their position? <ol style="list-style-type: none"> Business managers are responsible primarily to stockholders. Business has the technical, financial, and managerial resources needed to tackle today's complex social issues. (Correct) Corporate time, money, and talent should be used to maximize profits, not to solve society's problems. Social problems affect society in general, so business probably should not be expected to solve such problems. Social issues are the sole responsibility of government officials elected to represent the people. A friend of yours, a loan officer at a local bank, tells you that her annual salary is \$15,000 less than that of her male counterparts. She says further that her education and banking experience are equivalent or superior to those of most of these men. She should file a complaint with the <ol style="list-style-type: none"> Better Business Bureau. Equal Employment Opportunity Commission. (Correct) National Organization for Women. "Oprah Winfrey Show." National Alliance of Business. 	<p>Answers to Chapter Quiz ✓</p> <ol style="list-style-type: none"> Ethical issues often arise out of a business's relationship with <ol style="list-style-type: none"> investors. customers. employees. creditors. all of these. (Correct) The factor that refers to the amount of latitude within an organization that allows an employee to behave unethically is called <ol style="list-style-type: none"> the code of ethics. company policies and procedures. the individual. opportunity. (Correct) social pressure. 	<p>Answers to Chapter Quiz (cont'd) ✓</p> <ol style="list-style-type: none"> Peter Marwick, one of the largest accounting firms in the world, has extensive international operations. Operating internationally makes ethical decision making especially difficult because <ol style="list-style-type: none"> bribes and payoffs are acceptable business activities in the United States. Americans are more ethical than foreigners. many foreigners do not speak English. the U.S. government cannot prosecute American companies for unethical or illegal acts committed on foreign soil. standards of ethical behavior vary from country to country. (Correct) 										
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2.10 TEXTBOOK ANSWER KEYS

2.10a Return to Inside Business

Dancing Deer

1. **Is it socially responsible or good business for Dancing Deer to help its employees pay for public transportation to and from work? Explain your answer.**

Because Dancing Deer's workforce relies on public transit, subsidies make it easier for employees to get to and from work without financial hardship. If employees couldn't afford to travel to Dancing Deer, they would lose work time and pay—and the company would be short-handed, which could hurt productivity. As a result, it is both socially responsible and good business for Dancing Deer to help pay for its employees' use of public transportation.

2. **Although Dancing Deer could probably cut costs by moving to the suburbs, it has chosen to remain in Boston. How do you think this affects the company's ability to fund social responsibility programs?**

This question allows students to consider the trade-offs companies make when considering how to satisfy different stakeholders. Locating within the city limits so employees can take public transportation to work—even if moving to the suburbs would lower costs—is considered a key element of Dancing Deer's values and is therefore a high company priority. Although Dancing Deer may have to spend a little more for its Boston location, low employee turnover also keeps labor costs down. Savings in this area can be put toward Dancing Deer's other social responsibility programs. Students may also suggest other possibilities.

2.10b Review Questions

1. **Why might an individual with high ethical standards act less ethically in business than in his or her personal life?**

Pressure from low or declining profits can cause a person with normally high ethical standards to behave less ethically in business.

2. **How would an organizational code of ethics help ensure ethical business behavior?**

An organizational code of ethics would help a firm establish a guide to acceptable and ethical behavior for employees to follow.

3. **How and why did the American business environment change after the Great Depression?**

The Great Depression and its national consequences showed both the American people and their government that a more *centralized control* over certain kinds of businesses and business activities would be required in the future to prevent our economy from falling victim to the forces that caused the Depression.

4. What are the major differences between the economic model of social responsibility and the socioeconomic model?

The economic model of social responsibility holds that society will benefit most when business is left alone to produce and market profitable goods. The socioeconomic model places emphasis not only on profits but also on the impact of business decisions on society. (See Table 2.3.)

5. What are the arguments for and against increasing the social responsibility of business?

The arguments for increasing the social responsibility of business are the following:

- a. Business cannot ignore social issues because it is a part of our society.
- b. Business has the technical, financial, and managerial resources that are needed to tackle today's complex social issues.
- c. By helping resolve social issues, business can create a more stable environment for long-term profitability.
- d. Socially responsible decision making by business firms can prevent increased government intervention.

The arguments against increasing social responsibility are the following:

- a. Business managers are primarily responsible to stockholders, so management must be concerned with providing a return on owners' investments.
- b. Corporate time, money, and talent should be used to maximize profits, not to solve society's problems.
- c. Because social problems affect society in general, business should not be expected to solve these problems.
- d. Social issues are the responsibility of officials who are elected for that purpose and who are accountable to the voters for their decisions.

6. Describe and give an example of each of the six basic rights of consumers.

The right to safety. The products consumers purchase must be safe for their intended use, include thorough and explicit directions for proper use, and have been tested by the manufacturer to ensure product quality and reliability. Consumer safety would be an especially important consideration in the manufacture and sale of a product such as a hedge trimmer.

The right to be informed. Consumers should be given complete information about a product, such as ingredients in food or how to take care of a specific garment. Producers should also give information about the potential dangers of using their products, such as a reaction to drugs.

The right to choose. Because of competition, consumers can choose the particular product they want among several similar products, such as automobiles or men's shirts.

The right to be heard. Citizens can complain through the Better Business Bureau or can often call a company directly on a toll-free number.

The right to consumer education. People are entitled to be fully informed about their rights as consumers. An example would be the disclosure notices provided by banks or credit card companies.

The right to service. Consumers have the right to convenience, courtesy, and responsiveness from manufacturers and sellers of consumer products, which is one of the reasons that companies put 800 numbers on their products for customers to contact them.

7. There are more women than men in the United States. Why, then, are women considered a minority with regard to employment?

Women are a minority, not because they are fewer in number, but because there are fewer of them employed than men and fewer in positions of true responsibility. Women also fit the definition of a minority because they have been singled out as a group for unfavorable treatment.

8. What is the goal of affirmative action programs? How is this goal achieved?

The goal of affirmative action programs is to increase the number of minority employees at all levels within an organization. The Equal Employment Opportunity Commission (EEOC) was created by Congress to investigate complaints of discrimination and to sue firms that practice discrimination in employment.

9. What is the primary function of the Equal Employment Opportunity Commission?

The primary function of the EEOC is to investigate complaints of discrimination in employment.

10. How do businesses contribute to each of the four forms of pollution? How can they avoid polluting the environment?

Businesses contribute to water pollution by dumping wastes into the water; to air pollution by admitting hazardous chemicals into the air from motor vehicles and smokestacks; to land pollution by burying harmful wastes and chemicals; and to noise pollution by allowing excessive noise caused by traffic, aircraft, and machinery. Water pollution can be reduced by building larger and more efficient sewage treatment plants and removing sulfur emissions, a cause of acid rain. Pollution control devices on vehicles and smokestacks help reduce air pollution. The EPA has been working to clean up the land. Suits against companies that dump could help fund the cleanup operation. Noise levels can be reduced by isolating the source of noise away from the population and by modifying machinery and equipment to reduce noise levels.

11. Our environment *can* be cleaned up and kept clean. Why haven't we simply done so?

The environment hasn't been cleaned up and kept clean because of the costs involved and the problems associated with deciding who will pay for the cleanup.

12. Describe the steps involved in developing a social responsibility program within a large corporation.

The steps are as follows:

- a. *Commitment of top executives.* Top executives should develop a policy statement that outlines key areas of concern.
- b. *Planning.* Managers should form a plan that deals with each of the issues described in the policy statement.
- c. *Appointment of a director.* A top-level executive should be appointed to direct the organization's activities in implementing the policy.
- d. *The social audit.* The social audit is a comprehensive report of what an organization has done, and is doing, with regard to social issues that affect it.

2.10c Discussion Questions**1. When a company acts in an ethically questionable manner, what types of problems are caused for the organization and its customers?**

When an organization engages in ethically questionable behavior, it hurts the integrity of the organization and damages the company's image held by customers and potential customers. Customers lose trust in this type of organization and sometimes seek other sellers. An organization sometimes has to spend considerable resources to rebuild relationships with customers when the firm's integrity is questioned.

2. How can an employee take an ethical stand regarding a business decision when his or her superior has already taken a different position?

By whistle-blowing, the employee can inform the press or government officials of his or her firm's unethical practices. (You may want to discuss the repercussions of whistle-blowing with students.)

3. Overall, would it be more profitable for a business to follow the economic model or the socioeconomic model of social responsibility?

If regarded as a business expense, the socioeconomic model of social responsibility would be more profitable in the long run.

4. Why should business take on the task of training the hard-core unemployed?

This task is another aspect of social responsibility. When these people receive training, they become more employable. As a result, they can earn a wage and then return it to business through spending. Overall, such training programs improve the economy, which in turn helps the firms that sponsor the programs.

5. To what extent should the blame for vehicular air pollution be shared by manufacturers, consumers, and government?

Manufacturers should help in producing and/or using pollution control devices for cars and trucks. Consumers should buy and use products that limit air pollution. The government should set guidelines for the production and use of such products.

6. Why is there so much government regulation involving social responsibility issues? Should there be less?

There is so much government regulation because unethical businesses continue to ignore their social responsibility. There should not be less government regulation until businesses are ready to police themselves.

2.10d Comments on Video Case 2.1 (Video and DVD Segment 2d)

Suggestions for using this video case are provided in the Pride/Hughes/Kapoor Video Guide, which appears at the end of this manual.

At New Belgium Brewing, Greater Efficiency Is Blowing in the Wind

1. What do you think Kim Jordan means when she talks about how New Belgium Brewing strives to be a “business role model,” not just a beer maker?

Kim Jordan’s interest in having New Belgium Brewing (NBB) serve as a “business role model” relates to its social responsibility mission. If the company can show that social responsibility in all areas of the operation is compatible with profitability, Jordan hopes that other businesses will then follow NBB’s lead. Ask students to cite other examples of firms they believe are striving to be business role models (such as The Body Shop, for example).

2. Given New Belgium Brewing’s emphasis on social responsibility, what would you suggest the company look at when preparing a social audit?

Students will offer various responses. As a start, some possible areas to be examined:

- Whether all human resources practices are consistent with NBB’s socially responsible positions (supporting a community of people and empowering employees are two examples).
- Whether the plant is as environmentally friendly as it can possibly be with respect to buying from earth friendly suppliers, using low pollution production methods, reusing and recycling waste products, and so on.
- Whether the causes NBB supports through contributions are as environmentally friendly as NBB strives to be.

3. Should businesses charge more for products that are produced using more costly but environmentally friendly methods such as wind power? Should consumers pay more for products that are *not* produced using environmentally friendly methods because of the potential for costly environmental damage? Explain your answers.

This question should generate a lively classroom discussion. Students who think businesses should charge more for products made using more costly but environmentally friendly methods may argue that customers should be willing to pay a little more to protect the environment. They may also argue that customers have freedom of choice, so those who are not willing to pay more to protect the environment can decide to buy other products. Students who think consumers should pay more for products that are not produced using environmentally friendly methods because of the potential for costly environmental damage may argue that those customers are contributing to pollution and should pay some of the cleanup costs in the product’s price. They may also say that this approach will encourage more customers to buy

environmentally friendly products, which in turn will encourage more producers to use earth-friendly production methods.

2.10e Comments on Case 2.2

Belu Water

- 1. Belu Water gives all its profits away and bills its product as the first carbon-neutral bottled water and the first to come in corn bottles. Do you think its levels of eco-consciousness and social responsibility set a realistic model of environmental performance for other manufacturing companies? Why or why not?**

Belu Water sets the bar very high in terms of its environmental performance, especially in terms of its philanthropy (giving away 100 percent of its profits to water-related projects around the world). Students may have a good discussion about whether these goals are feasible in whole or in part for other companies. Certainly, firms that start out with such high goals are more likely to achieve them than firms already committed to products or manufacturing methods with bigger ecological footprints, for whom change is slow and expensive, or publicly held firms that must satisfy shareholders. Try asking students to identify Belu Water's stakeholders and compare them with those of, say, Evian or Coca-Cola (which markets Dasani bottled water in the United States).

- 2. Why does Belu Water produce a saleable product instead of just asking the public to donate money for clean-water projects?**

One of the advantages of producing a saleable product is that Belu thus avoids competing with charitable organizations for the ever-smaller amount of donated funds forthcoming from the public. Belu also provides a valuable product, creates employment, gives profitable business to its suppliers, and has a better opportunity, as a sustainable business enterprise, to influence other profit-making firms to improve their own ecological standards.

- 3. Do you agree with Reed Paget that business is ideally suited to “change the world”? Why or why not?**

Students should readily see that business provides important resources for helping create social and environmental change. Paget saw business as a source of important financial and human resources including large amounts of capital, an entrepreneurial approach to problem solving, and smart and skillful risk-takers. Businesses are also accountable to their stakeholders for their actions and are results driven, as well as highly conscious of cost and schedule. Ask students to compare business to nonprofit and government organizations as viable agents of change.

2.10f Building Skills for Career Success

- 1. Journaling for Success**

Assume that you are an accountant at ABC Corporation, where you question the company's accounting practices. What legal and managerial changes would you suggest to prevent the use of accounting tricks to manipulate corporate earnings?

Student answers may include the following:

1. I would recommend immediate implementation of an ethics code spelling out which accounting practices are acceptable and which are not.
2. I would suggest a policy that requires all accounting methods, whether internal or conducted by external auditors, to be vetted against Sarbanes-Oxley rules.
3. I would recommend that the company hire someone at the corporate vice presidential level with direct responsibility for Sarbanes-Oxley enforcement. He or she should report directly to the board of directors.
4. Anyone found to be in direct violation of the Sarbanes-Oxley Act should immediately be terminated.
5. The company should institute a method by which employees can report ethical lapses without fear of reprisal. An anonymous hotline is one possible example.

(1) Assume your manager refuses to incorporate any of your suggestions. Would you blow the whistle? Why or Why not?

Student responses to this question will vary. Some may say that they will get another job first, and then anonymously report their previous employer. Others will feel that the risks associated with whistle-blowing are too great, and some will take the idealistic route of avoiding an Enron situation.

(2) Suppose that you blow the whistle and get fired. Which law might protect your rights, and how would you proceed to protect yourself?

The law that protects whistle-blowers is the Sarbanes-Oxley Act of 2002. Any executive who retaliates against a whistle-blower can be held criminally liable and imprisoned up to ten years.

Some students will indicate that the first move they would make would be to hire a lawyer experienced in dealing with whistle-blowing situations. They may suggest that going to the media would help. In actuality, however, it might be better for their future employment prospects if they settle out of court. Some companies might be leery of someone who invites media attention.

2. Exploring the Internet

Suggestions for using each *Exploring the Internet* exercise are contained on the website for Pride/Hughes/Kapoor at www.cengage.com/introbusiness/pride. By using a website, we can also replace outdated material with the most up-to-date material available.

3. Developing Critical-Thinking Skills

The answers will vary from students of different ethnic backgrounds, social status, workplace experiences, and ages. Some students will feel very strongly about what they believe to be right and wrong and how they would conduct themselves in the workplace. Other students will endure the stress associated with working on projects they feel are morally wrong just to keep their job.

Two important points in this exercise are (1) to get students to discuss why they believe certain things are either right or wrong and (2) for all students to understand other people's positions regardless of whether or not they agree. As the world becomes the workplace, more Americans will be faced with examining their positions on what they believe to be right and wrong and/or finding employment with a company that fits within their ethical and moral beliefs.

Business ethics begins at the top of an organization. It creates the corporate culture. Strong leadership is needed to raise the level of ethics and morality. Leadership must set an example and encourage everyone in the organization to exercise integrity.

4. Building Team Skills

Assign several students the responsibility of finding a code of ethics from a business firm. Before class, prepare copies for everyone in the class. In class, have each group work with a different code of ethics in completing the exercise. Ask a member of each group to report the results before the class.

5. Researching Different Careers

Who is to say what is right and what is wrong? This question is debated every day in the newspapers and courtrooms across the country. Things that influence our values include religious teachings, parental guidance, television, cultural traditions and values, peers' values and behaviors, major events in the world, and social acceptance of behavior over time.

Each student's code of ethics will be a little different. It should include (1) the student's responsibilities to life, work, friends, family, etc. (How will the student treat others?) and (2) the student's expectations from life, work, friends, family, etc. (How does the student expect to be treated by others?).

2.11 QUIZZES I AND II

Quiz I

True-False Questions

Select the correct answer

1. T F Social responsibility is the recognition that business activities have an impact on society and the consideration of that impact in business decisions.
2. T F The economic model of social responsibility places emphasis not only on profits but also on the impact of business decisions on society.
3. T F Consumerism consists of all those activities that are undertaken to protect the rights of consumers in their dealings with business.
4. T F Six basic rights of consumers are the right to safety, the right to be informed, the right to choose, the right to be heard, the right to consumer education, and the right to service.
5. T F Whistle-blowing is an attempt by business to stop employees from exposing their unethical business behavior.

Multiple-Choice Questions

Circle the letter before the most accurate answer.

6. One factor that influences ethical decision making is the _____ factor.
 - a. business
 - b. consumer
 - c. marketing
 - d. opportunity
 - e. internal
7. A plan designed to increase the number of minority employees at all levels within an organization is called
 - a. the hard-core unemployed.
 - b. an affirmative action program.
 - c. the Equal Employment Opportunity Commission.
 - d. the socioeconomic initiative.
 - e. the right to work.
8. Initiating a social responsibility program takes
 - a. the commitment of top executives.
 - b. the commitment of middle managers.
 - c. the commitment of employees.
 - d. no commitment.
 - e. the commitment of competitors.

9. Funding for a program of social responsibility can come from
 - a. the employees in the corporation.
 - b. volunteer efforts of the American public.
 - c. corporations that absorb the costs as a business expense.
 - d. governmental sources.
 - e. environmental groups.
10. A guide to acceptable and ethical behavior is known as
 - a. a code of ethics.
 - b. business ethics.
 - c. a social audit.
 - d. consumerism.
 - e. an ethical behavior guide.

Quiz II

True-False Questions

Select the correct answer.

1. T F A policy of considering only nonminority applicants for job openings is called reverse discrimination.
2. T F Today, few firms are either purely economic or purely socioeconomic in their outlook.
3. T F Working conditions in the early twentieth century were not much different from those that exist today, except for the more advanced technology involved.
4. T F Government intervention into business increased after the Great Depression of the 1930s.
5. T F An argument for increased social responsibility is the fact that, because business managers are primarily responsible to business owners, they must be concerned with providing a return on the owners' investments.

Multiple-Choice Questions

Circle the letter before the most accurate answer.

6. A group of people who have been singled out for unfavorable treatment on the basis of race, religion, politics, or national origin is called
 - a. an affirmative action group.
 - b. the hard-core unemployed.
 - c. a minority.
 - d. the economically disadvantaged.
 - e. a majority.

7. Pollution in our country is made up of
 - a. air pollution.
 - b. land pollution.
 - c. noise pollution.
 - d. water pollution.
 - e. all of the above.
8. A government agency with the power to investigate complaints of discrimination and to sue firms that practice discrimination is the
 - a. National Alliance of Business.
 - b. Equal Employment Opportunity Commission.
 - c. NAACP.
 - d. Federal Trade Commission.
 - e. Interstate Commerce Commission.
9. Acid rain causes _____ pollution.
 - a. air
 - b. noise
 - c. water
 - d. land
 - e. practically no
10. An employee's decision to inform the press or government officials of his or her firm's unethical practices is referred to as
 - a. whistle-blowing.
 - b. the corporate code of ethics.
 - c. business ethics.
 - d. the grapevine.
 - e. tattling.

2.12 ANSWER KEY FOR QUIZZES I AND II AND TRANSPARENCY/ PREMIUM POWERPOINT EXERCISE AND QUIZ

Quiz I

True-False

1. T
2. F
3. T
4. T
5. F

Multiple-Choice

6. d
7. b
8. a
9. c
10. a

Quiz II

True-False

1. F
2. T
3. F
4. T
5. F

Multiple-Choice

6. c
7. e
8. b
9. c
10. a

Class Exercise—Transparency 2.B and Premium PowerPoint Slide 2-15

Student answers will vary. The objective of this exercise is to discuss the complex issues involved in defining ethical behavior. Have the class discuss the ethical issues in each situation and defend whether or not the situation is ethical.

Chapter Quiz—Transparency 2.D and Premium PowerPoint Slide 2-50

1. e
2. d
3. e
4. b
5. b

2.13 CLASSROOM EXERCISES

2.13a Homework Activities

- Have students bring in an article that shows an example of a company or executive that has operated in a particularly ethical or socially responsible way or a particularly unethical way. You may further ask them to locate the company's code of ethics (if it has one).

- Ask students to use the Internet to research several actual corporate codes of conduct and make a list of similarities and differences. This can be followed up with an in-class group activity where students compare their research and determine what common themes and ideas are likely to be reflected in most corporate codes of ethics.
- Have students choose a corporation with whose products they are familiar. Nike and Coca-Cola might be examples. The homework assignment is to write a one-page paper prioritizing constituencies to whom they have social responsibility. A typical progression might include stockholders, employees, the city of Atlanta (for Coca-Cola), etc.

2.13b Classroom Activities

- **“To Take or Not to Take the Gift” Exercise.** Have students consider the scenario in the “To Take or Not to Take the Gift” handout. The objective is to help students identify ethical issues and understand the importance of codes of ethics. This is best done as an individual exercise, although it would be useful to follow with a group discussion afterward. Instructor notes follow the exercise.
- **“To Surf or Not to Surf” Exercise.** This exercise can be used in a number of places in this chapter. It relates best to learning objectives 3 and 4, however.

Instruct students to form groups of three or four. They will need approximately twenty minutes to develop an Internet usage policy for Pupster Dog Fashions, a fictional company. Upon completion, each group should share their usage policy with the class.

If desire and time permit, you may instruct them to go to the web and benchmark similar policies for other companies. Some examples you may find on the web include the U.S. Department of the Interior (www.doi.gov/footer/doi_aup.html) and Microsoft’s Small Business site (www.microsoft.com/smallbusiness/support/checklist/step3.mspx).

This exercise may also be used as a homework project if desired. A sample policy for Pupster is provided.

- **Puffery Exercise.** Have students form into groups of three to five. Using the Puffery quiz as a handout, ask them to evaluate the advertising statements on the quiz as to whether (a) they are puffery or a real claim and (b) whether or not they are deceptive. This exercise helps reinforce the consumer right of being informed. The handout gives the student the information they need to make their judgments. Puffery is sometimes a matter of opinion rather than firm law, so this exercise should stimulate significant discussion. Once they have the handouts, the exercise should take approximately ten to fifteen minutes. Sample answers are provided.
- **Crossword Puzzle.** Have students form small groups and work together to complete the crossword puzzle on page 131. Provide a small prize for the team that completes the puzzle first.

2.13c Exercise Handouts Follow on Next Pages

“TO TAKE OR NOT TO TAKE THE GIFT”

You are the distribution manager for a large consumer products firm. Your company is about to release a very large shipment of products. As manager, you must choose among several transportation companies that are competing for your business. Sales representatives from railroad and trucking companies often make calls to your office. Your decision will mean the loss or gain of millions of dollars of revenue for these companies.

1. Which of the following gifts would you be willing to accept from sales representatives of the transportation companies?
 - Pen and pencil set (with the company's logo)
 - Five-year supply of scratch pads (with logo)
 - Dinner for four at an exclusive restaurant
 - Season tickets to a professional football game
 - Fruits and nuts delivered to you each Christmas
 - Three-day, all-expense-paid golfing vacation
 - \$500 in cash
 - Bag of groceries delivered to your home each week
 - Lavish trip to the Cayman Islands
2. What role would top management, superiors, and peers play in your decision on accepting these gifts?
3. If you had the chance to take some of the gifts on the list without anyone knowing, would you?
4. Would a code of ethics or an ethical corporate culture help you in making your decision?

Instructor Notes for “To Take or Not to Take the Gift”

Question 1. You might ask students which of the listed gifts “crosses the line” with regard to their perception of what is ethical. Students might change their minds about acceptable gifts if asked, “What if everyone did it?” A distribution manager who accepts a gift of any magnitude may make a decision that is not necessarily in the best interest of the company (e.g., selecting a higher-cost trucking company because it provides box seats to ball games).

Question 2. You might ask students if they know of instances in their own jobs where organizational relationships have had a negative or positive effect on ethical decision making. For instance, how does seeing a boss file inaccurate expense reports (to cover unauthorized expenditures) affect others in the firm? How might people react when peers take supplies or merchandise home?

Question 3. The role of opportunity may determine whether a person will behave ethically. You might also want to ask, “What if I gave an exam and left the classroom for the hour—would you be more likely to cheat?” Opportunity may be a better predictor of unethical activities than personal values.

Question 4. An effective code of ethics should let employees know both what is expected of them and the punishment for violating the rules. For instance, a firm may have a policy against accepting any gifts valued over \$25. The penalty for accepting anything over that amount may be dismissal. However, simply having a policy or code will be ineffective if top management and superiors do not support and enforce it.

“TO SURF OR NOT TO SURF”

A recent survey by America Online and Salary.com found that the average worker admits to wasting 2.09 hours per eight-hour workday and that 44.7 percent of those surveyed reported Internet surfing as their No. 1 distraction at work.

Most reasonable persons would agree that some use of the Internet for personal reasons is acceptable as long as it does not interfere with overall work performance. Clearly, it is up to the employer to determine what type of computer and Internet use is acceptable and to educate its employees as to those guidelines and restrictions.

“Pupster Dog Fashions” is both a retail and online operation, employing four in-store sales persons, eight customer-service and order-processing employees, a retail manager, an online manager, and two people in packing and shipping. Pupster’s hours are 10 a.m. to 6 p.m. Monday through Saturday for the retail store, and 8 a.m. to 8 p.m. for the online operation. All employees work a standard eight-hour day with an hour for lunch and two fifteen-minute breaks.

In your groups, develop a policy and set of guidelines for computer/Internet usage for the Pupster Dog Fashions company. You have twenty minutes. Be as specific as possible in developing your guidelines.

Your policy should contain the following elements:

- **Overall Statement of Policy (guiding principles)**
- **Specific Guidelines**
- **Monitoring Policy**
- **Penalties for Violations**

Instructor Notes for “To Surf or Not to Surf”

These guidelines can be covered verbally or handed out to the students before they begin.

Statement of Policy: This should be a general set of guiding principles and attitudes that lead to specific guidelines. On one extreme, some may feel that all paid time and equipment should be used for work-related matters only. On the other, some may feel that as long as the work gets done, the employees of Pupster should be allowed to use the Internet whenever they choose.

Specific Guidelines: The guidelines should specifically outline the policy. For example, they might include:

- Whether or not employees are allowed to browse the web for personal use
- When they can do so
- Whether employees are allowed to play games on the computer and when
- What web activity must be avoided such as:
 - downloading offensive content
 - threatening behavior or e-mails
 - illegal activities

Privacy Policy: The monitoring policy should clearly spell out how much privacy employees can expect and how web use will be monitored.

Penalties for Violations: This section should clearly delineate what action will be taken if the guidelines are violated. For example, playing solitaire at the wrong time might elicit a warning, while sending a threatening e-mail might be cause for dismissal.

Sample: Pupster Computer and Internet Usage Policy

Statement of Policy:

Pupster provides and maintains computer and electronic communications systems and Internet access. As a condition of providing these systems, the company places certain restrictions on their usage.

Specific Guidelines:

The use of computer systems and Internet access is restricted to the conduct of company business during working hours.

Working hours are defined as all time for which the employee is being paid. They do not include time prior to the start of the business or end of business day.

- Retail Store: 10 a.m. to 6 p.m. Monday through Saturday
- Online Operations: 8 a.m. to 8 p.m. Monday through Saturday

Employees are allowed to use the computer for personal use during lunch and other official breaks with the exceptions noted below.

Pupster computers and Internet access are not to be used for the following:

- Commercial use—Any form of commercial use of the Internet is prohibited.
- Copyright violations—Any use of the Internet that violates copyright laws is prohibited.
- Solicitation—The purchase or sale of personal items through advertising on the Internet is prohibited.
- Harassment—The use of the Internet to harass employees, vendors, customers, and others is prohibited.
- Confidential information—The release of confidential information regarding Pupster business.
- The accessing, viewing, downloading, or any other method for retrieving offensive entertainment on pornographic sites.

Privacy Policy:

All systems, equipment, and data remain at all times the property of the company. Accordingly, all messages and files created, sent, received, or stored within such systems remain the property of the company. The company reserves the right to retrieve and review any message or file composed, sent, received, or stored.

Penalties for Violations:

Violations of this policy will result in discipline up to and including termination.

PUFFERY EXERCISE

The Federal Trade Commission (FTC) regulates claims made by advertisers. For example, if a pizza company claims they always deliver hot pizza in thirty minutes, they must be prepared to substantiate that claim with documentation.

On the other hand, there is “puffery,” exaggerated claims that reasonable people do not believe to be real product qualities and which by their very nature are incapable of being proven true or false. Puffery, according to the FTC, therefore cannot be deceptive. Everyone knows that Wonder Bread is not a wonder, and that Folgers in your cup is probably not the best thing about waking up!

In your groups, decide if the following advertising statements are real claims or puffery, using the reasonable person rule. Also, indicate whether or not you believe deception could occur. Be prepared to defend your point of view.

Charmin Toilet Tissue claims to be “the original soft and comfy clean.”

Puffery?	Yes	No
Deceptive?	Yes	No

Apple iPod’s website claims that “the world’s best music player keeps getting better.”

Puffery?	Yes	No
Deceptive?	Yes	No

Quaker Life Vanilla Yogurt Crunch says “The great taste of yogurt just made Life a little sweeter.”

Puffery?	Yes	No
Deceptive?	Yes	No

JCPenney’s ad for its website jcp.com says “It’s all inside.”

Puffery?	Yes	No
Deceptive?	Yes	No

Hyundai says that “If greatness is a destination, we’re on the road to it.”

Puffery?	Yes	No
Deceptive?	Yes	No

Puffery Exercise Answers

By its very nature, puffery is ambiguous and arguable. With product parity in the marketplace, advertisers try to create an illusion of superiority.

Charmin Toilet Tissue claims to be “the original soft and comfy clean.”

Puffery? Yes No Deceptive? Yes No

Strictly speaking, Charmin probably was not the original toilet tissue used by folks. So to that extent it is deceptive. This falls under the “so what” claim category. OK, it may be the original—but, so what? How does that help the consumer?

Apple iPod’s website claims that “the world’s best music player keeps getting better.”

Puffery? Yes No Deceptive? Yes No

Better and best are the bread and butter of the puffery-generating ad writers. Best, in particular, certainly cannot be proven. And is it getting better? Who knows? In that sense, it is certainly deceptive.

Quaker Life Vanilla Yogurt Crunch says “The great taste of yogurt just made Life a little sweeter.”

Puffery? Yes No Deceptive? Yes No

What’s great taste? To whom? Who cares?

JCPenney’s ad for its website jcp.com says “It’s all inside.”

Puffery? Yes No Deceptive? Yes No

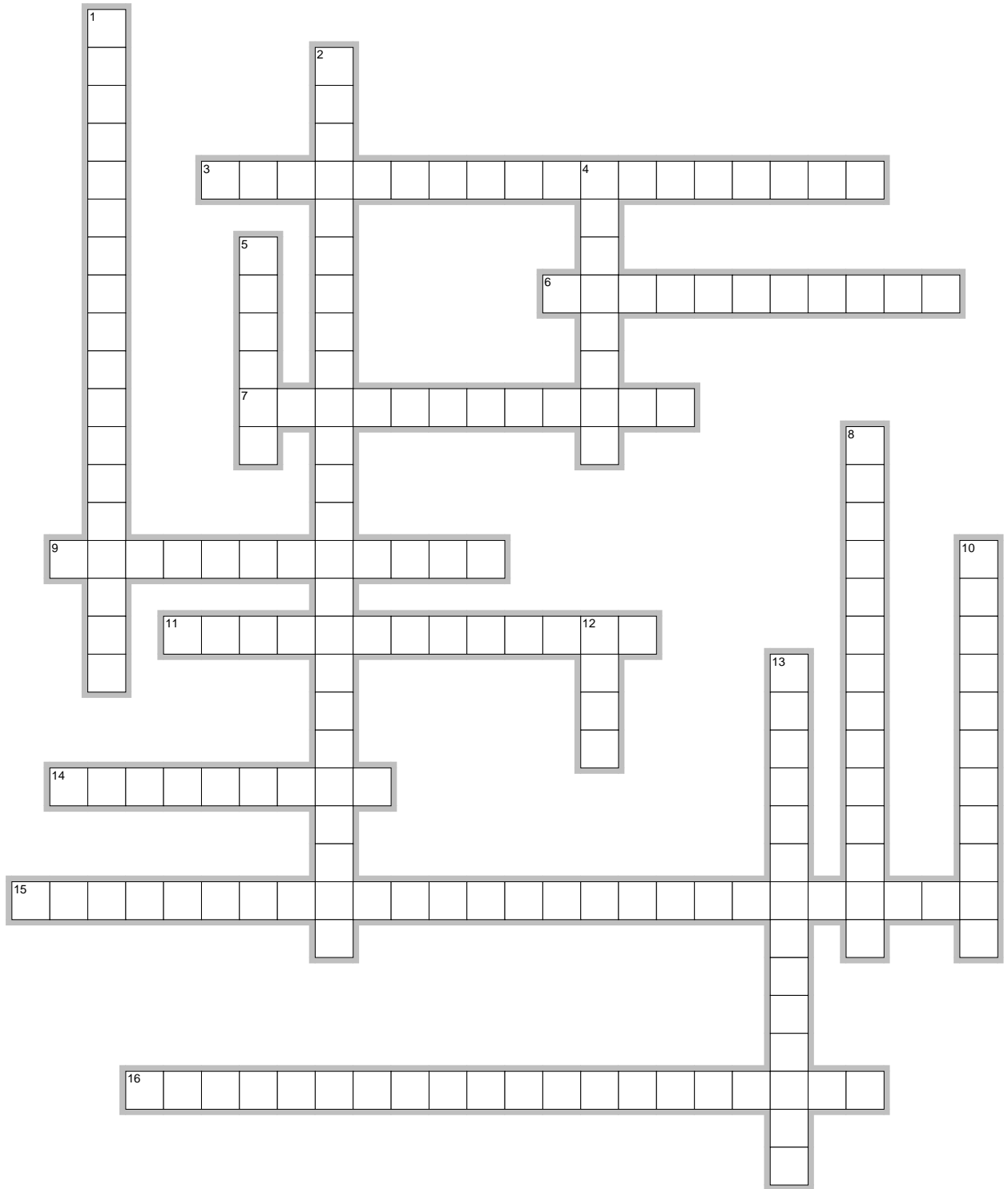
What’s “it”? One thing we know for sure is that whatever it is, it isn’t all inside. And inside where?

Hyundai says that “If greatness is a destination, we’re on the road to it.”

Puffery? Yes No Deceptive? Yes No

This one is arguable. It clearly implies that the product is being improved. But . . . what is greatness? How do we know if we get there? As long as improvements are made to the car, strictly speaking, it is not deceptive.

2.13d CROSSWORD



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CROSSWORD CLUES

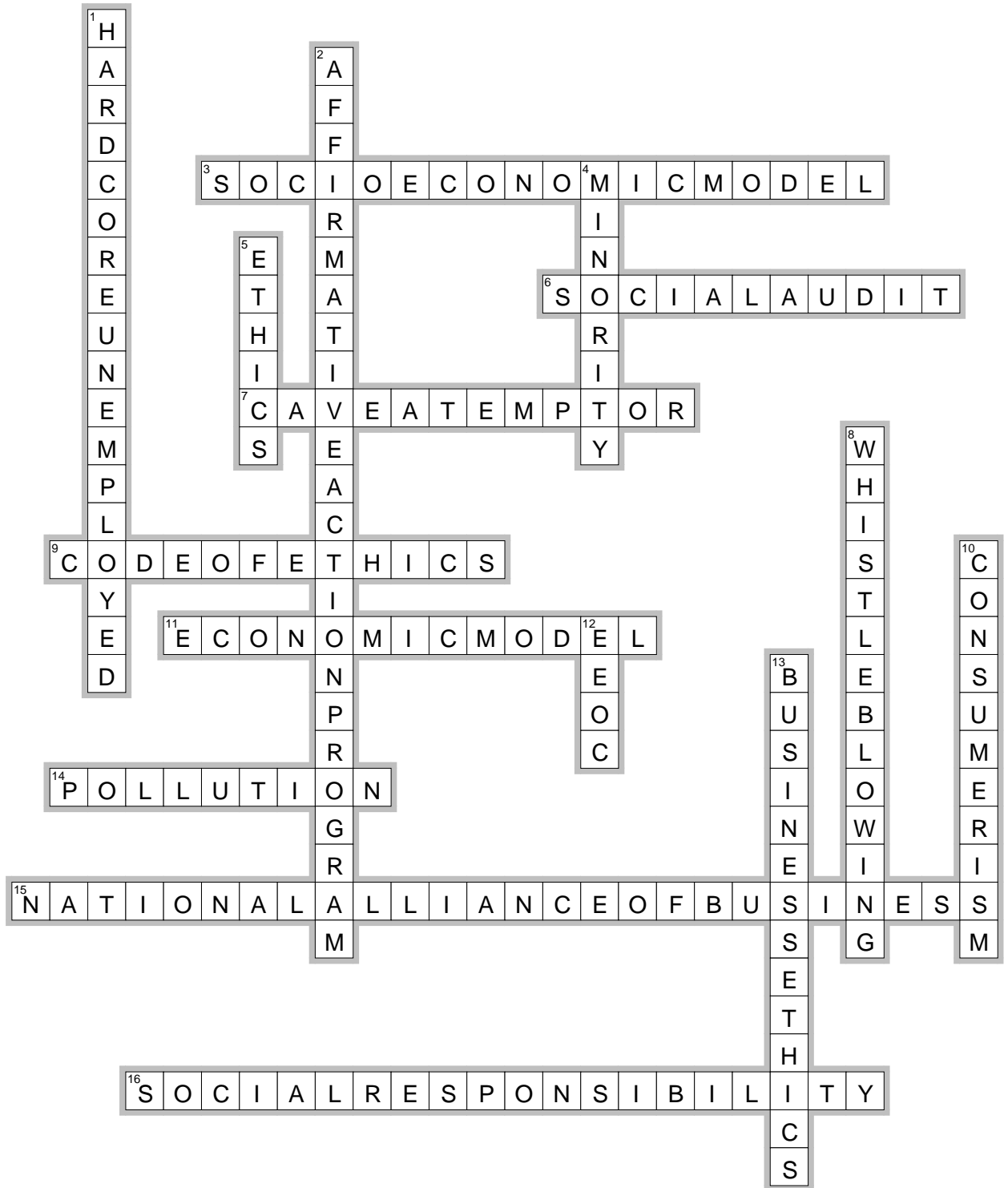
Across

3. _____ of social responsibility; the concept that business should emphasize not only profits but also the impact of its decisions on society
6. A comprehensive report of what an organization has done and is doing with regard to social issues that affect it
7. A Latin phrase meaning “let the buyer beware”
9. A guide to acceptable and ethical behavior as defined by the organization
11. _____ of social responsibility; the view that society will benefit most when business is left alone to produce and market profitable products that society needs
14. The contamination of water, air, or land through the actions of people in an industrialized society
15. A joint business-government program to train the hard-core unemployed
16. The recognition that business activities have an impact on society and the consideration of that impact in business decision making

Down

1. Workers with little education or vocational training and a long history of unemployment
2. A plan designed to increase the number of minority employees at all levels within an organization
4. A racial, religious, political, national, or other group regarded as different from the larger group of which it is a part and that is often singled out for unfavorable treatment
5. The study of right and wrong and of the morality of the choices individuals make
8. Informing the press or government officials about unethical practices within one’s organization
10. All activities undertaken to protect the rights of consumers
12. Acronym for a government agency with power to investigate complaints of employment discrimination and power to sue firms that practice it
13. The application of moral standards to business situations

CROSSWORD SOLUTION



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