

# SOLUTIONS MANUAL



**EBERT/GRIFFIN**

*Seventh Edition*

**Business  
Essentials**



## RESOURCES FOR CHAPTER 2: BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

The following resources are available for this chapter:

### *Instructor Resources*

Location: Instructor's Resource Download Center (IRC); IRC on DVD (DVD); MyBizLab; Print (P)

NOTE: To access mybizlab, please: (1) log on to your course, (2) select *Course Content*, (3) then go to *Content by Chapter/ Instructor Resources* (or *Student Resources*, if you choose). You may also select *Content by Category*, which lists all of the content we have available for the textbook.

<b><i>Resource</i></b>	<b><i>Location</i></b>
<b>Instructor's Manual</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a> ; DVD
• Chapter Overview	Page 2-1
• List of In-Class Activities to Accompany This Chapter	Page 2-2
• List of Homework Assignments to Accompany This Chapter	Page 2-2
• Teaching Notes and Suggestions	Pages 2-3 to 2-10
• In-Class Activities	Pages 2-11 to 2-18
• Answers to End of Chapter Exercises	Pages 2-19 to 2-20
• Answers to Additional Activities on MyBizLab <ul style="list-style-type: none"> <li>○ In-Class Self-Check</li> <li>○ Building Your Business Skills</li> <li>○ Exercising Your Ethics</li> <li>○ Video Case</li> <li>○ BizSkills: Ethics in the Workplace</li> </ul>	Page 2-21 Page 2-21 Page 2-21 Page 2-22 Pages 2-23 to 2-24
<b>Test Bank (and TestGen)</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a> ; IRC; DVD
<b>PowerPoint Presentation</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a> ; IRC; DVD
<b>CRS PowerPoints</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a> ; IRC; DVD
<b>Video Clip:</b> Doing the Right Thing: American Red Cross	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>Business Plan Files</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>WebLinks for this Chapter</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>Image Library</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a> ; DVD
<b>BizSkills:</b> Ethics in the Workplace	<a href="http://www.mybizlab.com">www.mybizlab.com</a>

### *Student Resources*

Location: MyBizLab, Print (P); MP3 (M)

<b><i>Resource</i></b>	<b><i>Location</i></b>
<b>Study Guide</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a> ; P
<b>Chapter Summary and Chapter Objectives</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a> ; M
<b>Pre-Test</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a> ; M
<b>Post-Test</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>Student PowerPoints (and Audio/Narrated PowerPoints)</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>WebLinks</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>Video Library:</b> includes selection of videos pertinent to the chapter	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>End of Chapter Exercises</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>eBook</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>Business Plan Files</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>Flashcards</b>	<a href="http://www.mybizlab.com">www.mybizlab.com</a>
<b>BizSkills:</b> Ethics in the Workplace	<a href="http://www.mybizlab.com">www.mybizlab.com</a>

## **Chapter 2: Business Ethics and Social Responsibility**

### **Chapter Overview**

Just because others see something as ethical, doesn't mean you will agree. There is not always a yes/no, right/wrong, black/white answer to everything. We all develop a personal code of ethics that we carry over into our jobs. Sometimes we decide what is ethical based on what is acceptable to others—even though the behavior may be unethical

This chapter presents a discussion of business ethics, the role of a formal code of ethics, as well as business approaches to social responsibility. The chapter also discusses how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors, and how issues of social responsibility and ethics affect small business.

### **Learning Objectives**

- A. Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.
- B. Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.
- C. Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.
- D. Identify four general approaches to social responsibility, and describe the four steps that a firm must take to implement a social responsibility program.
- E. Explain how issues of social responsibility and ethics affect small business.

## LIST OF IN-CLASS ACTIVITIES: AUTHOR'S CHOICE

Activity	Description	Time Limit	Instructor's Edition Page Reference
1. Ice-Breaker: What's Ethical in Business?	Students share their views on business ethics.	20 min.	2-4,2-11
Video Case: Doing the Right Thing: American Red Cross	A food video introduces the subject of Business Ethics and Social Responsibility.	Run time: 10:31 min. Question time: 30 min.	2-4, 2-22
2. Class Discussion: Ethical Judgment Making	Students discuss how ethical norms affect ethical judgments.	15 min.	2-4, 2-12
3. Up for Debate: Can Ethics Be Taught?	Students discuss varying opinions on ethics training as a class.	30 min.	2-6, 2-13
4. Chapter Case Discussion: The Rules of Tipping	Small groups address the case discussion questions at the end of the chapter.	20 min.	2-8, 2-14 through 2-16
5. Supplemental Case Study Discussion: Creative Peat at Bord na Mona	Students read a supplemental case study and discuss how it applies to chapter concepts.	30 min.	2-10, 2-17, 2-18

## LIST OF HOMEWORK ASSIGNMENTS: AUTHOR'S CHOICE

At-Home Activity	Description	Deliverable	Completion Time	Instructor's Edition Page Reference
Application Exercise 9: Social Responsibility	Students think about prioritizing various groups of stakeholders toward which an organization acts socially responsible.	A list of stakeholders and a discussion on their prioritization.	30 min.	2-6, 2-19
Application Exercise 10: Identifying Approaches to Social Responsibility	Students identify and describe at least three companies that take a defensive stance, an accommodative stance, and a proactive stance to social responsibility using various media options.	A brief paper detailing the research findings.	1 hour	2-10,2-20
BizSkill	Business Ethics and Social Responsibility	Students can test their own skill in the mini-simulation.		2-23, 2-24

# TEACHING NOTES AND SUGGESTIONS

## Section 1: Key Learning Objective A:

**Explain how individuals develop their personal codes of ethics and why ethics are important in the workplace.**

### Ethics in the Workplace

**Ethics** are beliefs about wrong and right or bad and good; **ethical behavior** conforms to individual beliefs and social norms about what is right and good. **Business ethics** refers to ethical or unethical behaviors by employees in the context of their jobs.

#### A. Individual Ethics

Ethics are based on individual beliefs and social concepts; thus, they vary by person, situation, and culture.

1. **Ambiguity, the Law, and the Real World.** Societies adopt formal laws that reflect ethical standards; however, real-world situations are sometimes difficult to interpret.
2. **Individual Values and Codes.** Individuals' personal codes of ethics are determined by a combination of factors.

#### B. Business and Managerial Ethics

**Managerial ethics** are the standards of behavior that guide individual managers in their work.

1. **Behavior toward Employees.** This category covers hiring and firing, wages and working conditions, and privacy and respect.
2. **Behavior toward the Organization.** Conflict of interest, confidentiality, and honesty are ethical issues.
3. **Behavior toward Other Economic Agents.** Ethics also comes into play in the relationship between the firm and a number of primary agents of interests, such as customers, suppliers, competitors, stockholders, dealers, and unions.

#### C. Assessing Ethical Behavior

Ethical *norms* include:

1. **Utility:** Does a particular act optimize the benefits to those who are affected by it?
2. **Rights:** Does it respect the rights of all individuals involved?
3. **Justice:** Is it consistent with what's fair?
4. **Caring:** Is it consistent with people's responsibilities to each other?

### **D. Company Practices and Business Ethics**

Many companies set up codes of conduct and develop clear ethical positions on how the firm and its employees will conduct business.

1. **Adopting Written Codes.** Almost all major corporations have written codes of ethics.
2. **Instituting Ethics Programs.** Ethical responses can be learned through experience; companies must take the responsibility for educating employees.

### **KEY TEACHING TIP**

Remind students that *individual ethics* vary by person, situation, and culture. What is acceptable and unacceptable is broad enough that people may develop varying behaviors without violating general standards.

### **QUICK QUESTIONS**

- What people and experiences have helped shape your individual code of ethics?
- What are some examples of conflicts of interest?

***Use In-Class Activity 1: Ice Breaker- What's Ethical in Business?***

**Time Limit 20 Minutes**

***Use In-Class Activity 2: Class Discussion: Ethical Judgment Making***

**Time Limit 15 minutes**

### ***VIDEO: DOING THE RIGHT THING: THE AMERICAN RED CROSS***

This is a good point to show this video; it introduces topics to be covered in the chapter. See answers to discussion questions on Page 2-22 of this Instructor's Edition.

## Section 2: Key Learning Objective B:

**Distinguish social responsibility from ethics, identify organizational stakeholders, and characterize social consciousness today.**

### **Social Responsibility**

**Social responsibility** refers to the overall way in which a business itself tries to balance its commitments to relevant groups and individuals in its social environment.

#### **A. The Stakeholder Model of Responsibility**

Most companies strive to be responsible to five main groups:

1. **Customers.** Critical factors include charging fair prices, honoring warranties, and standing behind product quality.
2. **Employees.** Treating workers fairly, making them a part of the team, and respecting their dignity promotes a company's reputation.
3. **Investors.** Managers must follow proper accounting procedures, provide appropriate information to shareholders, and manage the organization to protect share holder investments.
4. **Suppliers.** Partnership arrangements with suppliers can enhance market image and firm reputation.
5. **Local and International Communities.** Contributing to local and global programs has a positive impact on the community.

#### **B. Contemporary Social Consciousness**

Views toward social responsibility continue to evolve as managers work to meet the needs of various stakeholders in their business practices.

1. The concept of social responsibility has been developing since the days of **John D. Rockefeller, J.P. Morgan** and **Cornelius Vanderbilt**.
2. Unfortunately, the recent spate of **corporate scandals** colors the public's perception of business in negative hues.

### **KEY TEACHING TIP**

Remind students that actions deemed unethical in the United States may be ethical in other countries, and vice versa. For example, in some countries outside of the United States, bribing is acceptable and even expected in business.

### **QUICK QUESTION**

- How can companies benefit from adopting a written code of ethics?

***Use In-Class Activity 3: Up for Debate: Can Ethics Be Taught?***

**Time Limit 20 Minutes**

**HOMEWORK**

**Social Responsibility**

Now is a good time to assign Application Exercise 9 from the end-of-chapter materials as homework. This assignment asks students to think about prioritizing various groups of stakeholders toward which an organization acts socially responsible.

For the complete assignment instructions, see Page 31 of the textbook.

**At-Home Completion Time:** 30 minutes



## Section 3: Key Learning Objective C:

Show how the concept of social responsibility applies both to environmental issues and to a firm's relationships with customers, employees, and investors.

### Areas of Social Responsibility

#### A. Responsibility towards the Environment

1. **Air Pollution:** Under new laws, many companies must install special devices to limit pollutants they expel into the air.
2. **Water Pollution:** Increased awareness of chemical and waste dumping and the resulting dangers has led to improved water quality in many areas of the country.
3. **Land Pollution:** Proper **toxic waste** disposal and recycling programs are allowing companies to help restore land quality and to prevent further contamination.

#### B. Responsibility toward Customers

1. **Consumer Rights:** Consumerism is social activism dedicated to protecting the rights of consumers in their dealings with businesses.
2. **Unfair Pricing:** Collusion occurs when two or more firms agree to collaborate on wrongful acts, such as *price fixing*; *price gouging* occurs when firms respond to increased demand with steep price increases.
3. **Ethics in Advertising:** Consumers deserve to be given product information that is truthful and can be proven, as well as information that is not morally objectionable.

#### C. Responsibility toward Employees

**Legal and Social Commitments:** Recruiting, hiring, training, promoting, and compensating are the bases for social responsibility toward employees; a **whistle-blower** is an employee who discovers and tries to end a company's unethical, illegal, or irresponsible actions by publicizing them.

#### D. Responsibility toward Investors

**Improper Financial Management: Insider trading** occurs when someone uses confidential information to benefit from the purchase or sale of stocks. Misrepresentation of Finances is where unethical managers project profits that they do not expect to get or hide losses and expenses incurred to boost paper profits.

#### F. Green Marketing

Businesses are increasingly recognizing that looking after the environment is good marketing. As a result, businesses are now concerned with a number of environmental factors:

1. **Production Processes:** The most ethical thing a business can do is use scarce and valuable resources well. Businesses often Invest in new production technologies so that resources are used more efficiently.
2. **Product Modification:** Products can be modified to make them more environmentally friendly. One example is of a business that only uses wood from sustainable managed forests.
3. **Carbon Offsets:** Many companies are committed to offsetting the CO<sub>2</sub> produced buy their products by buying carbon offsets. Consumers now also have the opportunity to buy carbon offsets for the air travel that they take.
4. **Packaging Reduction:** Reducing and reusing materials is another important strategy for green marketing. For many years, The Body Shop has been a leader in this area of marketing.
5. **Sustainability:** Using materials that are sustainable is also a strong marketing tool of many companies. Whole Foods Market is committed to using agricultural products that are sustainable.

### **QUICK QUESTIONS**

- What are some examples of what companies do to act in a socially responsible way toward customers? Toward employees?
- What are some ways in which organizations act in a socially responsible way toward the environment?

***Use In-Class Activity 4: Chapter Case Discussion –The Rules of Tipping***  
**Time Limit 20 Minutes**

## Section 4: Key Learning Objective D:

Identify four general approaches to social responsibility, and describe the four steps that a firm must take to implement a social responsibility program.

### Implementing Social Responsibility Programs

#### A. Approaches to Social Responsibility

1. **Obstructionist Stance:** Organizations do as little as possible to solve social or environmental problems.
2. **Defensive Stance:** Organizations will do everything that is required of them legally but nothing more.
3. **Accommodative Stance:** The organization meets its legal and ethical requirements but will also go further in certain cases.
4. **Proactive Stance:** Firms that adopt this approach take to heart the arguments in favor of social responsibility.

#### KEY TEACHING TIPS

- Make sure that students understand that firms taking the *obstructionist stance* usually do as *little as possible* to solve social or environmental problems. If possible, list some examples of firms that take such a stance.
- Remind students that firms taking an *accommodative stance* meet their legal and ethical requirements and may also go further in certain cases.
- Many corporate acts of social responsibility have been court-ordered. The use of biodegradable packaging, for example, may not be the choice of individual companies but rather mandated by the government as a means to protect the environment.
- Remind students that contemporary social consciousness varies, depending on how turbulent the social, political, and economic times.

#### B. Managing Social Responsibility Programs

Managers must take steps to foster social responsibility. Such steps include:

- (1) making social responsibility a **factor in strategic planning**.
- (2) **developing a plan** detailing the level of management support.
- (3) **putting one executive in charge** of the agenda.
- (4) conducting **occasional social audits**.

### **KEY TEACHING TIP**

Make sure students understand that social responsibility programs must be initiated and supported by top management; ultimately, a social responsibility program involves *everyone* in the organization.

***Use In-Class Activity 5: Supplemental Case Study Discussion –Creative Peat at Bord na Mona***

**Time Limit 30 minutes**

### **HOMEWORK**

#### **Identifying Approaches to Social Responsibility**

Now is a good time to assign Application Exercise 10 from the end-of-chapter materials in the textbook. The assignment asks students to use newspapers, magazines, and other references to identify three companies that take a defensive stance to social responsibility, three that take an accommodative stance, and three that take a proactive stance.

For the complete assignment instructions, see Page 31 of the textbook.

**At-Home Completion Time:** 1 hour

#### **C. Social Responsibility and the Small Business**

Many big-business responses to ethical and social responsibility issues apply to small businesses; differences are primarily differences of scale.

### **KEY TEACHING TIP**

Reinforce that small-business responses to social responsibility are similar to big-business responses— the only difference is scale.

### **BIZSKILL: ETHICS IN THE WORKPLACE**

Today's generation of students likes to learn by doing. In order to facilitate this, we offer a series of mini-business simulations to help students implement the ideas presented in the chapter into a business setting.

## IN-CLASS ACTIVITIES

### In-Class Activity 1: Ice-Breaker

#### What's Ethical in Business?

##### Activity Overview:

This exercise asks students to share their views on business ethics.

##### Time Limit:

20 minutes

##### What to Do:

1. Ask students to identify examples of recent ethical business practices. Examples: Donating a percentage of profits to charity and community causes (Ben & Jerry's donates 7 1/2 percent of pretax profits and Levi Strauss donates 2.4 percent of pretax profits to a variety of causes), encouraging employees to volunteer using paid work time (Walt Disney's VoluntEARS program), and recycling (McDonald's has an environmental protection program). (10 minutes)
2. Ask students to identify examples of recent unethical business practices. Examples: Forwarding "marketing research" results to salespeople, marketing R-rated movies to kids, and deliberately selling cigarettes or alcohol to minors. (10 minutes)

##### Don't Forget:

You might want to come prepared with numerous recent, local examples of ethical and unethical business practices to share with students.

##### Wrap-Up:

Wrap up the discussion by encouraging students to think about whether these kinds of business practices are consistent with an organization's responsibility to maximize profits, for example, which typically sparks a lively debate.

## **In-Class Activity 2: Class Discussion**

### **Ethical Judgment Making**

#### **Activity Overview:**

This activity asks students to consider ethical norms when making an ethical judgment.

#### **Time Limit:**

15 minutes

#### **What to Do:**

1. Ask students to review the ethical norms outlined in the textbook: utility, rights, justice, and caring. (5 minutes)
2. Ask students to think of an ethical situation in which these norms did or did not prevail, sharing whatever they can with the class. (10 minutes)

#### **Don't Forget:**

You might want to come to class with examples of an ethical situation illustrating each of the norms. This exercise can also be assigned as homework.

#### **Wrap-Up:**

Wrap up the discussion by reminding students that with utility, considering what is fair to all relevant parties involved is often based on perception. Further, in considering justice, considering what is consistent with what is fair can also pose challenges.

## **In-Class Activity 3: Up for Debate**

### **Can Ethics Be Taught?**

#### **Activity Overview:**

This activity asks students to share their opinions on ethics training.

#### **Time Limit:**

20 minutes

#### **What to Do:**

1. As a class, ask students to consider whether ethics can be taught. Is ethics training valuable or does ethical behavior stem more from how we are raised?
2. For those students who believe that ethics can be taught and that ethics training is valuable, allow 10 minutes for discussion.
3. For those students who believe that ethical behavior comes more from how we are raised and that ethics training really does not affect our ethical behavior in the long run, allow 10 minutes for discussion.

#### **Don't Forget:**

As students are supporting or refuting the benefits of ethics training, be sure to have them cite specific examples to back up their opinions.

#### **Wrap-Up:**

Wrap up the discussion by reminding students that companies sometimes issue written codes of ethics to ensure their ethical norms are upheld. The effectiveness of such codes of ethics often sparks lively debate as well.

## **In-Class Activity 4: Chapter Case Discussion**

### **The Rules of Tipping**

#### **Activity Overview:**

For a quick review, consider breaking your class into small groups to address the case discussion questions at the end of The Rules of Tipping Handout. (See Pages 2-15 and 2-16)

#### **Time Limit:**

20 minutes

#### **What to Do:**

1. Divide students into four groups and ask them to read the chapter case. Assign each group one of the Questions for Discussion to answer. (10 minutes)
2. After the groups have completed their respective answers, reassemble the class and discuss each question. (10 minutes)

#### **Don't Forget:**

As students are supporting or refuting the benefits of ethics training, be sure to have them cite specific examples to back up their opinions.

#### **Wrap-Up:**

Wrap up the discussion by reminding students that companies sometimes issue written codes of ethics to ensure their ethical norms are upheld. The effectiveness of such codes of ethics often sparks lively debate as well.



## ***HANDOUT: BUSINESS ACCOUNTABILITY***

### **The Rule of Tipping**

A while ago, Martha Stewart was convicted on charges of obstruction of justice and lying to government agencies. But while many people paid attention to her travails, relatively few really understood the basis for the charges against her. Much of the problem hinges on who said what, when, and to whom.

Dr. Samuel Waksal spent much of his career as a respected immunologist. In 1984, he launched a biotech business called ImClone to explore new treatment options for cancer. Waksal hired his brother Harlan, also a physician, to help run it. It seemed that they'd found the ticket to riches in the early 1990s, when a professional acquaintance, research scientist John Mendelsohn, indicated that he'd made a discovery that might be a major breakthrough in the fight against cancer.

Erbix, as the new drug was called, seemed to show significant potential for treating certain forms of cancer. With additional funding, Mendelsohn was confident that he could get federal approval to market the drug. The Waksals convinced Mendelsohn to license Erbix to ImClone. For the next few years, as the drug was being further developed and refined, Waksal devoted much of his time to building enthusiasm for Erbix. After all, a medical breakthrough on the cancer front would have incredible market value.

Waksal's marketing efforts paid off. Investors seemed to be lining up at his door, and ImClone became the talk of New York. Mick Jagger came to Waksal's Christmas party, and the Doobie Brothers entertained at the ImClone party at a major cancer-research meeting. Waksal himself partied with Stewart and dated her daughter.

As Erbix drew closer to becoming a reality, enthusiasm continued to mount. The American Society of Clinical Oncologists predicted that Erbix would be for the twenty-first century what polio and smallpox vaccines were for the twentieth. Waksal, meanwhile, began dropping hints that the testing process at the Food and Drug Administration (FDA) was going well and that he anticipated full approval just as soon as FDA evaluations were complete.

In the fall of 2001, Bristol-Myers Squibb announced plans to invest \$2 billion in ImClone. In return, the giant drugmaker would get a 20-percent stake in ImClone and a share of the U.S. rights to Erbix. Fueled in part by the Bristol-Myers investment and in part by Waksal's promotional campaign, ImClone stock, already performing impressively, took off, reaching a high of \$75.45 a share in early December 2001. But then a giant shoe dropped.

In early December 2001, rumors began to circulate among key Bristol-Myers and ImClone officials that the Erbix approval was in trouble. Allegedly, Samuel and Harlan Waksal launched furious lobbying efforts with personal contacts at the FDA to get the decision delayed or deferred. On December 6, Harlan sold \$50 million of his ImClone stock. On December 26, Samuel learned that the FDA had made up its mind: It had denied the Erbix application and refused to approve commercial production.

That night and early the next morning, Waksal apparently relayed this information to certain family members and close friends. On December 27, family members sold more than \$9 million in ImClone stock. Waksal tried to unload \$5 million in ImClone stock, but was refused by his broker, who had already put a hold on all ImClone transactions. On the same day, his good friend Martha Stewart sold 3,928 shares of ImClone.

The official FDA announcement came on December 28. On December 31, the first day of trading after the announcement, the volume of ImClone trading increased 179 percent as its value dropped 15 percent. Throughout the spring of 2002, ImClone stock continued to plummet, and by June 2002, it stood at a measly \$7.83 a share. The ImClone board persuaded Samuel Waksal to resign because the Securities and Exchange Commission (SEC) investigation into his actions was hurting the firm's performance. On June 12, 2002, the FBI arrested Samuel Waksal, charging him with insider trading and obstruction of justice. (Insider trading, an illegal practice, involves trading in stock based on information not available to all investors.)

In early August 2002, several new charges were filed against Waksal, including perjury and bank fraud. At the heart of these new charges was an allegation that he had deceived two major financial institutions, Bank of America and Refco Capital Markets. Authorities claim that in late 1999, Waksal had in his possession a warrant allowing him to buy 350,000 shares of ImClone for \$5.50 a share. He used that warrant as collateral in obtaining loans from each lender, neither of which knew that it was being used to get a loan from the other one. In 2000, Waksal cashed in the warrant, rendering it worthless as collateral for either loan. Later that year, Bank of America requested confirmation from Waksal that he still held the warrant. According to indictments handed down in August 2002, Waksal forged the signature of ImClone's general counsel on a letter dated November 10, 2000, verifying that the warrant was still valid as collateral.

This news only fueled suspicions about Waksal's other activities. He now faces additional charges, and family members and friends are under growing scrutiny. Two major lenders are looking at major losses from worthless loans. ImClone stock value has plummeted, and Bristol-Myers's investment in the company will almost certainly have to be written off as well. Waksal eventually pled guilty to eight counts of fraud and is currently serving jail time. Stewart, meanwhile, was also convicted of misleading investors and of lying to federal investigators and served time in a federal prison.

### **DISCUSSION QUESTIONS**

- a) In your opinion, should Martha Stewart have been sent to jail?
- b) In your opinion, what penalty would have been appropriate for Samuel Waksal?
- c) At what point does information you receive from a friend become insider trading?

## **In-Class Activity 5: Supplemental Case Study Discussion**

### **Creative Peat at Bord na Mona**

#### **Activity Overview:**

This activity asks students to apply the chapter concepts to a case study.

#### **Time Limit:**

30 minutes

#### **What to Do:**

1. In advance, make copies of the Supplemental Case Study (see Page 2-18) and distribute them to students.

2. Divide students into groups and ask them to read the case and answer the questions in their small groups. (15 minutes)

- (a) How does Bord na Mona's search for new uses for peat reflect its ethical stance?
- (b) If Bord na Mona has to lay off workers as a result of further changes it makes to remain environmentally responsible, is it behaving ethically?
- (c) What options do you think the firm would have if it couldn't make money on environmentally friendly products?

3. Once students have answered the questions, discuss their answers as a class. As students discuss their answers, make sure they touch on the following points: (15 minutes)

- (a) The company appears committed to finding nonpolluting uses for its product and to protecting the boglands where it is harvested.
- (b) Answers will vary, but students should mention that the company would face a tough decision but it might legitimately make environmental responsibility a priority.
- (c) It could sell or license its new technologies to other firms as a way of earning revenue, and it could seek further cost reductions.

#### **Don't Forget:**

You may want to come to class with other examples of companies that have made strides to become environmentally friendly and in doing so have reaped profits.

#### **Wrap-Up:**

Wrap up the discussion by asking students whether they would pay more for environmentally friendly products.

## ***HANDOUT: SUPPLEMENTAL CASE STUDY***

### **Creative Peat at Bord na Mona**

Bord na Mona is an Irish institution. For over 50 years, the state-owned firm has supplied bricks of the dried plant matter known as peat, which has served as a fuel for the generating of electricity. Recently, however, the firm has begun to change direction as a result of the environmental damage caused by gathering and burning organic fuels. "Taking peat and burning it is the most unecological thing you can do with it," says Peter Foss, chairman of the Irish Peatland Conservation Council.

Bord na Mona is exploring new uses for peat, including environmentally friendly applications like soaking up chemical factory odors and filtering residential sewage in U.S. markets, such as North Carolina and California. "The big challenge is to grow the environmental business in the U.S.," says Donal Clarke, a company spokesman. "It could be enormous for us." Puraflo, which is Bord na Mona's new residential sewage filter, uses a smaller drain field than traditional septic systems and requires minimal maintenance, and it is expected to bring in more than \$4 million in revenue from the U.S. market by 2001.

During a restructuring in the 1990s, in which it also cut its workforce in half and sharply reduced its costs, Bord na Mona put its new interest in the environment into practical terms. It pledged to restore bogs after harvesting peat, promised not to excavate any new ones, and sold several already fragile sites to conservation agencies. It also bills itself as an environmental consultant and offers its commercial laboratory services to commercial and government clients. Its annual profits have since increased 35 percent to a record high of over \$12 million (on sales of \$174 million), with environmental products accounting for 9 percent of revenues, a figure Bord na Mona hopes will increase.

*Sources:* Brian Lavery, "Irish Peat Company Adapts to Change," *New York Times*, December 14, 2000, W1; [www.bordnamona.com](http://www.bordnamona.com).

### **DISCUSSION QUESTIONS**

- (a) How does Bord na Mona's search for new uses for peat reflect its ethical stance?
- (b) If Bord na Mona has to lay off workers as a result of further changes it makes to remain environmentally responsible, is it behaving ethically?
- (c) What options do you think the firm would have if it couldn't make money on environmentally friendly products?

## ANSWERS FOR END OF CHAPTER ACTIVITIES

### QUESTIONS FOR REVIEW (P. 31 OF THE TEXTBOOK)

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#### **Answers:**

1. b
2. d
3. False
4. True
5. d
6. c
7. a
8. d
9. False

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1. Answers will vary, but students may consider such factors as the person's sense of right and wrong, desire for gain at any cost, and culture as possible factors.
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### ***DOING THE RIGHT THING: AMERICAN RED CROSS***

**Video Running Time:** 10:31

**Question Completion Time:** 30 minutes

1. The American Red Cross believes it can demonstrate more social responsibility to local businesses and economies by buying from local suppliers, rather than accepting donations of goods. Buying from local businesses helps keep workers employed; the suppliers of local businesses receive orders and economic benefit; and investors benefit because the companies in which they hold shares keep operating.
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4. The American Red Cross can use a variety of communication methods (such as research surveys, a feedback form on its Web site, community hearings, and so on) to learn directly from stakeholders about their needs and preferences. It can also gather information from local boards of directors, chapters, and volunteers.
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## **BIZSKILLS: Ethics in the Workplace**

### **Instructor Tips**

Available at: [mybizlab.com](http://mybizlab.com)

#### **Brief Synopsis/Objectives:**

In this BizSkill, students play the role of a sales rep at TechLink, a company that sells specialized software to hospitals. They're asked to try to win a \$10,000 bonus by securing the most sales, all the while in competition with an unethical competitor. At the end of the BizSkill, students should be able to answer the following questions:

1. How does having clearly defined personal ethics help you in the business world?
2. What do you do if your professional life comes into conflict with your personal ethics?

#### **How to Best Use This BizSkill:**

A great way to use this BizSkill is to assign it as homework before your first lecture on the chapter. Ask students to print out their feedback page, and then have them do the BizSkill again at the end of the week to see whether their scores have improved.

#### **The Final Feedback Screen:**

Students are awarded points based on their selections in the BizSkill. For this BizSkill, students receive one of three responses:

- **If the student scores 0-25 points, they receive the following response:** You scored ## points out of a possible 60, or ## percent. Although you focused on sales and winning your short-term bonus, you forgot the ethical consequences of your actions. Nicole, another rep, ended up beating both you and Drew when a loyal customer placed a huge repeat order with her. To do a better job next time, click Next to visit the resources on the next page.
- **If the student scores 26-50 points, they receive the following response:** You scored ## points out of a possible 60, or ## percent. Although you focused on sales and winning your short-term bonus, you often forgot the ethical consequences of your actions. Unfortunately, you tied Drew for first and have to split the prize—have fun with him in Rome. To truly win next time, click Next to visit the resources on the next page.
- **If the student scores 51-60 points, they receive the following response:** Congratulations! You scored ## points out of a possible 60, or ## percent. You were able to recognize that being ethical has both short- and long-term benefits. In fact, one of your loyal clients was so impressed with your customer service that she placed an order for 10 extra units, and you beat Drew handedly. To make sure you win again next year, click Next to visit the resources on the next page.

#### **BizSkill Resources:**

At the end of the BizSkill, students are directed to a variety of resources:

- **Cheat Sheet:** The Cheat Sheet (shown to the right) presents students with a list of the key points made in the BizSkill.
- **Glossary Review:** The Glossary enables students to review key terms presented in the BizSkill. Key terms are tied directly to chapter content.
- **Quick Quiz:** The Quick Quiz enables students to test themselves on content related to the BizSkill.
- **Back to the Book:** This section refers students back to appropriate sections in the book for content reinforcement.

## BizSkill: Ethics in the Workplace

## Summary Sheet

### Feedback

You scored ## points out of a possible 50, or ## percent.  
Although you focused on sales and winning your short-term bonus, you forgot the ethical consequences of your actions. Nicole, another rep, ended up beating both you and Drew when a loyal customer placed a huge repeat order with her. To do a better job next time, click Next to visit the resources on the next page.

### Cheat Sheet

For a Cheat Sheet of this challenge, click [here](#).

### Glossary Review

For a Glossary Review of the key terms in this challenge, click [here](#).

### Quick Quiz

For a Quick Quiz relating to this challenge, click [here](#).

### Back to the Book

<i>For more information about:</i>	<i>Go to:</i>
personal ethics	page 20 of <i>Business Essentials</i>
ethics in business	page 23 of <i>Business Essentials</i>
personal ethics meeting business ethics	page 20 of <i>Business Essentials</i>

### Cheat Sheet

- **Ethics** are the moral choices people make.
- Having a strong ethical foundation can help you achieve success in business and greater happiness in life.
- In the modern workplace, there is less distinction made between how you conduct yourself inside and outside the office.
- Conflicts can emerge when your personal ethical standards are different than those of your company.

# **BUILDING YOUR BUSINESS SKILLS**

## **TO LIE OR NOT TO LIE: THAT IS THE QUESTION**

### **Goal**

To encourage you to apply general concepts of business ethics to specific situations.

### **Background Information**

It seems workplace lying has become business as usual. According to one survey, one-quarter of working adults in the United States said that they had been asked to do something illegal or unethical on the job. Four in 10 did what they were told. Another survey of more than 2,000 secretaries showed that many employees face ethical dilemmas in their day-to-day work.

### **Method**

#### ***Step 1***

Working with a small group of other students, discuss ways in which you would respond to the following ethical dilemmas. When there is a difference of opinion among group members, try to determine the specific factors that influence different responses.

- Would you lie about your supervisor's whereabouts to someone on the phone? Would it depend on what the supervisor was doing?
- Would you lie about who was responsible for a business decision that cost your company thousands of dollars to protect your own or your supervisor's job?
- Would you inflate sales and revenue data on official company accounting statements to increase stock value? Would you do so if your boss ordered it?

- Would you say that you witnessed a signature when you did not if you were acting in the role of a notary?
- Would you keep silent if you knew that the official minutes of a corporate meeting had been changed? Would the nature of the change matter?
- Would you destroy or remove information that could hurt your company if it fell into the wrong hands?

### *Step 2*

Research the commitment to business ethics at Johnson & Johnson ([www.jj.com](http://www.jj.com)) and Texas Instruments ([www.ti.com/corp/docs/ethics/home.htm](http://www.ti.com/corp/docs/ethics/home.htm)) by checking out their respective Web sites.

[[Verify accuracy of URL's. RG]] As a group, discuss ways in which these statements are likely to affect the specific behaviors mentioned in step 1.

### *Step 3*

Working with group members, draft a corporate code of ethics that would discourage the specific behaviors mentioned in step 1. Limit your code to a single printed page, but make it sufficiently broad to cover different ethical dilemmas.

## **FOLLOW-UP QUESTIONS**

- 1 What personal, social, and cultural factors do you think contribute to lying in the workplace?
- 2 Do you agree or disagree with the statement “The term business ethics is an oxymoron.” Support your answer with examples from your own work experience or that of someone you know.

- 3** If you were your company's director of human resources, how would you make your code of ethics a "living document"?
  
- 4** If you were faced with any of the ethical dilemmas described in step 1, how would you handle them? How far would you go to maintain your personal ethical standards?

## **EXERCISING YOUR ETHICS: INDIVIDUAL EXERCISE**

### **TAKING A STANCE**

#### **The Situation**

A perpetual debate revolves around the roles and activities of business owners in contributing to the greater social good. Promoting the so-called proactive stance, some people argue that businesses should be socially responsible by seeking opportunities to benefit the society in which they are permitted to conduct their affairs. Others promoting the defensive stance maintain that because businesses exist to make profits for owners, they have no further obligation to society.

#### **The Dilemma**

Assume that you are the manager of a restaurant near a major manufacturing plant. Many of your customers are employees at the plant. Due to inflation, you are about to raise your prices 10 to 15 percent. You have had new menus created and updated your posters. You have been planning to implement the higher prices in about three weeks.

You have just heard that another plant owned by the same company has been shut down for two weeks due to an explosion. The plant near you will be expected to make up the slack by asking workers to put in longer hours, adding a new shift, and so forth. You anticipate a substantial jump in your business immediately. You are now trying to make a quick decision about your pricing. One option is to go ahead and roll out your higher prices now. Combined with the big jump in traffic, your profits would skyrocket. The other option is to follow your original timetable and wait three weeks to increase your prices. You will have then passed up the opportunity to capitalize on the temporary jump

in business.

### **QUESTIONS TO ADDRESS**

- 1** Which course of action is easier to defend? Why?
- 2** What is your personal opinion about the appropriate stance that a business should take regarding social responsibility?
- 3** To what extent is the concept of social responsibility relevant to nonbusiness organizations such as universities, government units, health care organizations, and so forth?

## **EXERCISING YOUR ETHICS: TEAM EXERCISE**

### **FINDING THE BALANCE**

#### **The Situation**

Managers often find it necessary to find the right balance among the interests of different stakeholders. For instance, paying employees the lowest possible wages can enhance profits, but paying a living wage might better serve the interests of workers. As more businesses outsource production to other countries, these trade-offs become even more complicated.

#### **The Dilemma**

The Delta Company currently uses three different suppliers in Southeast Asia for most of its outsourced production. Due to increased demand for its products, it needs to double the amount of business it currently subcontracts to one of these suppliers. (For purposes of this exercise, assume that the company must award the new supplier contract to a single firm, and that it must be one of these three. You can also assume that the quality provided is about the same for all three companies.)

Subcontractor A provides a spartan but clean work environment for its workers; even though the local weather conditions are hot and humid much of the year, the plant is not air conditioned. Delta Company safety experts have verified, though, that the conditions are not dangerous, simply a bit uncomfortable at times. The firm pays its workers the same prevailing wage rate that is paid by its local competitors. While it has never had a legal issue with its workforce, it does push its employees to meet production quotas and it has a very tough policy regarding discipline for tardiness. For instance, an employee who



is late gets put on probation; a second infraction within three months results in termination. This supplier provides production to Delta Company at a level such that Delta can attach a 25 percent markup.

Subcontractor B also provides a spartan work environment. It pays its workers about 5 percent above local wage levels and hence is an attractive employer. Because of its higher pay, this firm is actually quite ruthless with some of its policies, however. For instance, any employee who reports to work more than 15 minutes late without a medical excuse is automatically terminated. This supplier's costs are such that Delta Company can achieve a 20 percent markup.

Subcontractor C runs a much nicer factory; the plant is air conditioned, for instance. It also pays its workers about 10 percent above local wage levels. The company also operates an on-site school for the children of its employees, and provides additional training for its workers so they can improve their skills. Due to its higher costs, Delta Company's markup on this firm's products is only around 15 percent.

### **Team Activity**

Assemble a group of four students and assign each group member to one of the following roles:

- Delta Company executive
- Delta Company employee
- Delta Company customer
- Delta Company investor

### **ACTION STEPS**

- 1** Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, which firm do you think should get the additional business? Which firm is your second choice? Write down the reasons for your position.
- 2** Before hearing any of your group's comments on this situation, and from the perspective of your assigned role, what are the underlying ethical issues in this situation? Write down the issues.
- 3** Gather your group together and reveal, in turn, each member's comments on their choices. Next, reveal the ethical issues listed by each member.
- 4** Appoint someone to record main points of agreement and disagreement within the group. How do you explain the results? What accounts for any disagreement?
- 5** From an ethical standpoint, what does your group conclude is the most appropriate choice for the company in this situation?
- 6** Develop a group response to the following question: Would your decision have been any different if you were able to break up the new contract across different suppliers? Why?

## **VIDEO EXERCISE**

### **DOING THE RIGHT THING: AMERICAN RED CROSS**

#### **Learning Objectives**

*The purpose of this video is to help you:*

- 1** Identify some of the social responsibility and ethics challenges faced by a nonprofit organization.
- 2** Discuss the purpose of an organizational code of ethics.
- 3** Understand the potential conflicts that can emerge between an organization and its stakeholders.

#### **Synopsis**

Founded in 1881 by Clara Barton, the American Red Cross is a nonprofit organization dedicated to helping victims of war, natural disasters, and other catastrophes. The organization's chapters are governed by volunteer boards of directors who oversee local activities and enforce ethical standards in line with community norms and the Red Cross's own code of ethics. Over the years, the Red Cross has been guided in its use of donations by honoring donor intent. This policy helped the organization deal with a major ethical challenge after the terrorist attacks of September 11, 2001. The Red Cross received more than \$1 billion in donations and initially diverted some money to ancillary operations, such as creating a strategic blood reserve. After donors objected, however, the organization reversed its decision and—honoring donor intent—used the contributions to directly benefit people affected by the tragedy.

## DISCUSSION QUESTIONS

- 1 For analysis:** What are the social responsibility implications of the decision to avoid accepting donations of goods for many local relief efforts?
- 2 For analysis:** What kinds of ethical conflicts might arise because the American Red Cross relies so heavily on volunteers?
- 3 For application:** What can the American Red Cross do to ensure that local chapters are properly applying its code of ethics?
- 4 For application:** How might a nonprofit, such as the American Red Cross, gain a better understanding of its stakeholders' needs and preferences?
- 5 For debate:** Should the American Red Cross have reversed its initial decision to divert some of the money donated for September 11 relief efforts to pressing but ancillary operations? Support your chosen position.

### Online Exploration

Visit the American Red Cross Web site ([www.redcross.org](http://www.redcross.org)) and scan the headlines referring to the organization's response to recent disasters. Also look at the educational information available through links to news stories, feature articles, and other material. Next, carefully examine the variety of links addressing the needs and involvement of different stakeholder groups. What kinds of stakeholders does the American Red Cross expect to visit its Web site? Why are these stakeholders important to the organization? Do you think the organization should post its code of ethics prominently on this site? Explain your answer.

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## SELF-CHECK QUESTIONS 1–3

- 1 Multiple Choice** Suppose a manager cheats on an expense account. Into which of the following areas of managerial ethics does this behavior fall?
- (a) organizational behavior toward other economic agents
  - (b) employee behavior toward the organization
  - (c) organizational behavior toward the employee
  - (d) other economic agents' behavior toward the organization
- 2 Multiple Choice** Which of the following is **not** one of the norms for assessing ethical behavior discussed in this section?
- (a) utility
  - (b) rights
  - (c) justice
  - (d) regulation
- 3 True/False** Every business is legally required to develop and publish a corporate code of ethics.

---

## SELF-CHECK QUESTIONS 4–6

- 4 True/False** Though closely related, ethics and social responsibility do not mean the same thing.
- 5 Multiple Choice** The stakeholder model of social responsibility generally includes which of the following?

- (a) customers
- (b) employees
- (c) suppliers
- (d) All of these

**6 Multiple Choice** Contemporary social consciousness toward business currently reflects which of the following?

- (a) universal admiration
- (b) calls for higher taxes
- (c) growing skepticism and concern regarding responsible corporate governance
- (d) a laissez-faire philosophy

---

### **SELF-CHECK QUESTIONS 7–9**

**7 Multiple Choice** Which of the following is **not** an area of social responsibility?

- (a) responsibility toward the board of directors
- (b) responsibility toward the environment
- (c) responsibility toward customers
- (d) responsibility toward employees

**8 Multiple Choice** General approaches to social responsibility include which of the following?

- (a) obstructionist
- (b) defensive

(c) accommodative

(d) All of these

**9 True/False** Because of their size and limited financial resources, small businesses do **not** need to be concerned with social responsibility.





## ANSWERS FOR END OF CHAPTER ACTIVITIES

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