

SOLUTIONS MANUAL

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The Essentials



9TH EDITION

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BUSINESS ETHICS: AN INTRODUCTION

- **Ethics:** Applying moral principles and values to social behavior.
 - **Business Ethics:** Moral principles and values applied to situations that arise in a business setting.
- Businesses trying to meet or exceed the *moral minimum* (*i.e.*, the minimally acceptable standard for ethical business behavior) may look for guidance from:
 - corporate and professional **ethics codes** and **compliance programs**;
 - **public opinion** and sentiment; and, of course,
 - **personal morality**.
- **Legal Behavior:** While certain actions are clearly legal or illegal, many decisions faced by businesses fall within one or more “gray areas” of the law, where probability, rather than certainty, will guide the decisionmakers.
- **Ethical Behavior:** Even where a contemplated action is legal (or, in some circumstances, illegal), business decisionmakers should also consider whether the action is “ethical.”

SETTING THE ETHICAL TONE

- **Management Attitudes:** Managers who do not commit to creating and maintaining an ethical workplace rarely have one.

- Employees tend to follow what they perceive to be management's lead, so managers must model ethical behavior for their employees.

- Managers should set realistic goals for their employees to reduce the incentive to "cheat" in order to achieve management's goals.

- Managers who "look the other way" because an unethical employee is successful risk other employees believing that acting unethically is the key to success.

- **Codes of Conduct:** Many businesses have formalized their ethical expectations in a written code of conduct.

- **Training:** Businesses with and without formal codes of conduct should talk with their employees about the importance of behaving ethically and should consider in-house or out-sourced ethics training programs.

CORPORATE COMPLIANCE PROGRAMS

- **Sarbanes-Oxley Requirements:** The Sarbanes-Oxley Act of 2002 requires publicly-traded corporations to set up programs to enable employees to confidentially report certain types of suspected illegal or unethical behavior. Some companies encourage employees to report illegal or unethical behavior that is outside the scope of Sarbanes-Oxley.
- **Online Reporting:** Confidential Web-based reporting systems, like Ethicspoint™, allow employees of subscribing companies to report suspect behavior to a third party, which then alerts the subscribing company's management or audit committee of reported information.

ETHICS AND THE FINANCIAL CRISIS

- **Stock Buyback:** A corporation's officers may use corporate funds to buy shares of its own stock on the open market, artificially boosting the stock's market price.

- **Stock Options:** Corporate officers holding options to buy the corporation's stock at a per-share price higher than the current market price could benefit substantially if the market price were to rise above the option price.

- From **2005-07**, the top 500 U.S. corporations spent **\$1.4 trillion** on stock buybacks, rather than distributing those funds as dividends to their existing shareholders or reinvesting them to produce future profit.

- **Risky Business:** During the early 2000s, financial entities ventured into new areas of business and new types of transactions that proved to be far more risky and less predictable than their traditional business and transactions, resulting in huge systemwide losses.

- **Executive Compensation:** Bonuses based on selling risky assets to investors or artificially inflating a corporation's stock price encourage officers to take bigger risks, for which they may receive greater rewards even if the assets later fail or the stock price later falls.

ETHICAL REASONING

- **Duty-Based Ethics:** Ethics based upon an underlying concept of duty regardless of the consequences of action taken or foresworn in keeping with duty. Duty-based ethics generally arise from **religious belief** or **philosophical reasoning**.
- **Categorical Imperative:** In deciding whether an action is ethical, one should consider what the effect would be if everyone similarly situated acted in the same way.
- **Principle of Rights:** In deciding whether an action is ethical, one should consider what effect her actions would have on the fundamental rights of others.
- **Outcome-Based Ethics:** Ethics based upon the consequences of action taken or foresworn, without regard to any underlying concept of duty or morality.
- **Utilitarianism** dictates that a decision to act or not act should be directed to producing *the greatest good for the greatest number of people*.
- Applying any outcome-based ethic requires a **cost-benefit analysis** of the negative and positive effects of the proposed act or omission on the individuals who are likely to be affected by it.

CORPORATE SOCIAL RESPONSIBILITY

- **Corporate Social Responsibility:** The idea that corporations, and those who run them, should act ethically and in society's best interests, not just their shareholders' best interest.
- **Stakeholder Theory:** A particular challenge facing businesses is ethically balancing the competing demands of multiple groups of *stakeholders* – e.g., shareholders, employees, retirees, suppliers, creditors, customers, the communities in which the business operates – whose lives business decisions affect.
- **Corporate Citizenship:** Corporations should behave as “good citizens” by promoting worthwhile social goals and by working to solve important social problems.
- Socially-responsible corporate behavior is most likely to succeed when it is relevant and important to a company's stakeholders and its business operations.
- Prospective employees – particularly younger ones – often seek jobs, and are more likely to stay in jobs, that allow them to participate in community improvement and other meaningful social activities.

MAKING ETHICAL BUSINESS DECISIONS

- **The Importance of Being Ethical:** One lesson from the corporate malfeasance crisis of the late-1990s and the current financial crisis is that ethical corporate decisionmaking is not only desirable, it may be essential to a business's long-term survival and prosperity. But, what *is* ethical decisionmaking? Here are some guidelines:
 - avoid making choices that are or might be **illegal**;
 - follow **internal rules, policies, and procedures**;
 - consider whether a decision that is not illegal, and for which there is no corporate rule, policy, or procedure, is consistent with the **spirit** of existing law and corporate rules, policies, and procedures;
 - let your **conscience** be your guide;
 - keep your (and your corporation's) **promises** to the best of your ability, and provided that a particular promise is consistent with other ethical guidelines; and
 - make the decision that you believe your **hero, role model, or mentor** would make under the circumstances.

BUSINESS ETHICS IN THE GLOBAL MARKET

- In response to numerous scandals involving U.S. companies paying bribes to foreign government officials in order to gain strategic concessions, Congress passed the **Foreign Corrupt Practices Act (FCPA)** in 1977, which:
 - (1) **prohibits** any U.S. company, director, officer, shareholder, employee, or agent from **bribing** any foreign government official if the purpose of the payment is to get the official to act in her official capacity **to provide business opportunities** to the party offering the bribe;
 - The FCPA does not prohibit bribery of minor officials whose acts are purely ministerial, as long as such payments are legal in the foreign country.
 - (2) requires U.S. companies to keep **detailed accounting records** that “accurately and fairly” reflect all foreign activities;
 - (3) prohibits anyone from making **false statements or false entries** in said records; and
 - (4) provides **sanctions** against both companies and individual agents who violate the FCPA.