

**SOLUTIONS MANUAL**



**Foundations of Business**



**PRIDE • HUGHES • KAPOOR • 2E**

## CHAPTER 2

# Being Ethical and Socially Responsible

### INSTRUCTOR MANUAL RESOURCES

2.1	Quick Reference Guide.....	57
2.2	Learning Objectives .....	58
2.3	Brief Chapter Outline.....	58
2.4	Guide for Using PowerPoint Slides .....	60
2.5	PowerPoint Slides .....	61
2.6	General Chapter Teaching Tips .....	65
2.7	Comprehensive Lecture Outline .....	66
2.8	Textbook Answer Keys.....	92
	2.8a Concept Checks .....	92
	2.8b Discussion Questions .....	97
	2.8c Video Case: At New Belgium Brewing, Greater Efficiency Is Blowing in the Wind.....	98
	2.8d Building Skills for Career Success .....	99
2.9	Quizzes I and II.....	101
2.10	Answer Key for Quizzes I and II .....	104
2.11	Classroom Exercises .....	104
	2.11a Homework Activities .....	104
	2.11b Classroom Activities.....	104
	2.11c Exercise Handouts .....	105

## 2.1 QUICK REFERENCE GUIDE

Instructor Resource	Location
Learning Objectives	Textbook, p. 33; IM, p. 58; PowerPoint Slides 2-2 and 2-3
Brief Chapter Outline	IM, pp. 58–59
Guide for Using PowerPoint Slides	IM, p. 60 Reproduced in Print IM
PowerPoint Slides	IM, pp. 61–64
General Chapter Teaching Tips	IM, p. 65
Comprehensive Lecture Outline	IM, pp. 66–91
Is it Ethical <i>Who Says?</i>	Textbook, p. 37 Questions and Suggested Answers, IM, p. 67
At Issue: Should women be given additional rights, or do they already possess equal rights?	IM, p. 85
Global Economic Challenges <i>How the Economy Affects Social Responsibility</i>	Textbook, p. 44 Questions and Suggested Answers, IM, p. 87
Concept Checks	Textbook, pp. 36, 39, 47, 48, 50, 52, 56, 59, and 60 Suggested Answers, IM, pp. 92–97
Marginal Key Terms List	Textbook, p. 62
Discussion Questions	Textbook, p. 62 Suggested Answers, IM, pp. 97–98
Video Case (At New Belgium Brewing, Greater Efficiency Is Blowing in the Wind) and Questions	Textbook, p. 64 Suggested Answers, IM, pp. 98–99
Building Skills for Career Success	Textbook, pp. 64–65 Suggested Answers, IM, pp. 99–100
IM Quiz I & Quiz II	IM, pp. 101–103 Answers, IM, p. 104
Additional Class Exercises	IM, pp. 104–105

## 2.2 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.

## 2.3 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**

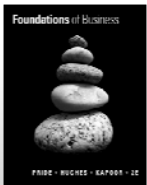
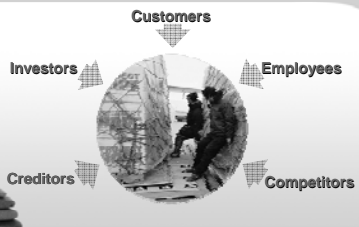




- A. Developing a Program of Social Responsibility
  - 1. Commitment of Top Executives
  - 2. Planning
  - 3. Appointment of a Director
  - 4. The Social Audit
- B. Funding the Program

## 2.4 GUIDE FOR USING POWERPOINT SLIDES

Basic PPT Slide Number(s)	Premium PPT Slide Number(s)	Title/Description
1	1	Chapter Opener
2–3	2–3	Learning Objectives
4–5	4–5	Chapter Outline begins
	6*	Companies Today Monitor Employees
	7*	<i>Figure:</i> Ethical Issues & Business Relationships
6	8	Chapter Outline continues
7	9	<i>Figure 2.1</i> Factors That Affect the Level of Ethical Behavior
8–14	10–16	Chapter Outline continues
15	17	<i>Table 2.1</i> Guidelines for Making Ethical Decisions
16	18	Chapter Outline continues
	19*	“The Six Pillars of Character”
17–18	20–21	Chapter Outline continues
19	22	<i>Table 2.2</i> Early Government Regulations That Affected American Business
20–22	23–25	Chapter Outline continues
23	26	<i>Table 2.3</i> A Comparison of the Economic and Socioeconomic Models of Social Responsibility as Implemented in Business
24	27	<i>Figure:</i> Recession and Responsibility
25–27	28–30	Chapter Outline continues
28–31	31–34	<i>Table 2.4</i> Major Federal Legislation Protecting Consumers Since 1960
32	35	Chapter Outline continues
33	36	<i>Figure 2.3</i> Comparative Income Levels
34	37	<i>Figure 2.4</i> Relative Earnings of Male and Female Workers
35	38	Chapter Outline continues
	39*	Problems with Affirmative Action Programs
36–38	40–42	Chapter Outline continues
39	43	<i>Table 2.5</i> Summary of Major Environmental Laws
40	44	Chapter Outline continues
	45*	<i>Figure:</i> Air Pollution City Comparisons
	46*	Who Should Pay for a Clean Environment?
41–43	47–49	Chapter Outline concludes
	50–54*	Chapter Quiz

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

## 2.5 POWERPOINT SLIDES (BASIC AND PREMIUM)

 <p><b>Chapter 2</b> <b>Being Ethical and Socially Responsible</b></p>	<p><b>Learning Objectives</b></p> <ol style="list-style-type: none"> <li>1. Understand what is meant by business ethics.</li> <li>2. Identify the types of ethical concerns that arise in the business world.</li> <li>3. Discuss the factors that affect the level of ethical behavior in organizations.</li> <li>4. Explain how ethical decision making can be encouraged.</li> <li>5. Describe how our current views on the social responsibility of business have evolved.</li> </ol>	<p><b>Learning Objectives</b></p> <ol style="list-style-type: none"> <li>6. Explain the two views on the social responsibility of business and understand the arguments for and against increased social responsibility.</li> <li>7. Discuss the factors that led to the consumer movement and list some of its results.</li> <li>8. Analyze how present employment practices are being used to counteract past abuses.</li> <li>9. Describe the major types of pollution, their causes, and their cures.</li> <li>10. Identify the steps a business must take to implement a program of social responsibility.</li> </ol>
<p><b>Ethics</b></p> <p>“...the study of right and wrong and of the majority of the choices individuals make.”</p>	<p><b>Business Ethics</b></p> <p>“...the application of moral standards to business situations.”</p>	<p><b>Companies Today Monitor Employees'</b></p> <ul style="list-style-type: none"> <li>✓ Phone calls</li> <li>✓ E-Mail</li> <li>✓ Internet usage</li> <li>✓ Computer activities</li> <li>✓ Building movements</li> </ul>
<p><b>Ethical Issues &amp; Business Relationships with</b></p> 	<p><b>Ethical Issues</b></p> <ul style="list-style-type: none"> <li><b>Fairness and honesty</b> <ul style="list-style-type: none"> <li>▪ Businesspeople are expected to refrain from knowingly deceiving, misrepresenting, or intimidating others</li> </ul> </li> <li><b>Organizational relationships</b> <ul style="list-style-type: none"> <li>▪ A businessperson should put the welfare of others and that of the organization above their own personal welfare</li> </ul> </li> <li><b>Conflict of interest</b> <ul style="list-style-type: none"> <li>▪ Issues arise when a businessperson takes advantage of a situation for personal gain rather than for the employer's interest</li> </ul> </li> <li><b>Communications</b> <ul style="list-style-type: none"> <li>▪ Business communications that are false, misleading, or deceptive are both illegal and unethical</li> </ul> </li> </ul>	<p><b>Figure 2.1: Factors That Affect the Level of Ethical Behavior in an Organization</b></p>  <p><small>Source: Based on O. C. Ferrell and Larry Gresham, "A Contingency Framework for Understanding Ethical Decision Making in Marketing," Journal of Marketing, Summer 1985, p. 86.</small></p>
<p><b>Factors Affecting Ethical Behavior</b></p> <ul style="list-style-type: none"> <li><b>Individual factors</b> <ul style="list-style-type: none"> <li>▪ Individual knowledge of an issue</li> <li>▪ Personal values</li> <li>▪ Personal goals</li> </ul> </li> <li><b>Social factors</b> <ul style="list-style-type: none"> <li>▪ Cultural norms</li> <li>▪ Coworkers</li> <li>▪ Significant others</li> <li>▪ Use of the Internet</li> </ul> </li> <li><b>Opportunity</b> <ul style="list-style-type: none"> <li>▪ Presence of opportunity</li> <li>▪ Ethical codes</li> <li>▪ Enforcement</li> </ul> </li> </ul> 	<p><b>Encouraging Ethical Behavior</b></p> <ul style="list-style-type: none"> <li><b>External to a specific organization</b> <ul style="list-style-type: none"> <li>▪ Governmental legislation and regulations</li> <li>▪ Trade association guidelines</li> </ul> </li> <li><b>Within an organization</b> <ul style="list-style-type: none"> <li>▪ Code of ethics                             <ul style="list-style-type: none"> <li>▪ A written guide to acceptable and ethical behavior as defined by an organization; it outlines policies, standards, and punishments</li> </ul> </li> <li>▪ Organizational environment                             <ul style="list-style-type: none"> <li>▪ Management direction</li> <li>▪ Employee training</li> <li>▪ Ethics officer</li> </ul> </li> </ul> </li> </ul>	<p><b>Whistle-Blowing</b></p> <p>“...informing the press or government officials about unethical practices within one's organization.”</p> 
<p><b>Sarbanes-Oxley (2002)</b></p> <p>“...provides sweeping new legal protection for employees who report corporate misconduct.”</p> <p><b>Deals with</b></p> <ul style="list-style-type: none"> <li>✓ Corporate Responsibility</li> <li>✓ Conflicts of Interest</li> <li>✓ Corporate Accountability</li> </ul>	<p><b>Code of Ethics</b></p> <p>“...a guide to acceptable and ethical behavior as defined by an organization; it outlines uniform policies, standards, and punishments for violations.”</p>	<p><b>How Managers Provide Direction</b></p> <ul style="list-style-type: none"> <li>▪ Fostering communication</li> <li>▪ Actively modeling</li> <li>▪ Encouraging ethical decision making</li> <li>▪ Training employees to make ethical decisions</li> </ul> 

<p><b>Ethics Officer</b></p> <p>“...coordinates ethical conduct (and) gives employees someone to consult if they are not sure of the right thing to do.”</p> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 16</p>	<p><b>Table 2.1: Guidelines for Making Ethical Decisions</b></p> <table border="1"> <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 or 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> </table> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 17</p>	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 that arise.	May involve arbitration or additional proposals.	<p><b>Social Responsibility</b></p> <p>“...the recognition that business activities have an impact on society and the consideration of that impact in business decision making.”</p> <ul style="list-style-type: none"> <li>• Social responsibility costs money but is also good business.</li> <li>• How socially responsible a firm acts may affect the decisions of customers to do or continue to do business with the firm.</li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 18</p>				
1. Listen and learn.	Recognize the problem or opportunity; be sure you understand others.															
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<p><b>“The Six Pillars of Character”</b></p> <ol style="list-style-type: none"> <li>1. Trustworthiness</li> <li>2. Respect</li> <li>3. Responsibility</li> <li>4. Fairness</li> <li>5. Caring</li> <li>6. Citizenship</li> </ol> <p>For more detail, go to the website by clicking on this link.  <small>Source: Josephson Institute of Ethics, “Resources: Making Ethical Decisions: The Six Pillars of Character.” <a href="http://www.josephsoninstitute.org/AMERED/SixPillars.cfm">http://www.josephsoninstitute.org/AMERED/SixPillars.cfm</a></small></p> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 19</p>	<p><b>Sample Forms of Social Responsibility</b></p> <ul style="list-style-type: none"> <li>• Ongoing organization support (Young Eagles)</li> <li>• Specific situation support (Tsunami relief, Fallen Heroes Fund)</li> <li>• Employee support of local community projects (GE &amp; 3M)</li> <li>• Product/Service contribution (Patient Assistance Program)</li> <li>• Education programs (Bayer &amp; Merck)</li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 20</p>	<p><b>Evolution of Social Responsibility in Business</b></p> <ul style="list-style-type: none"> <li>✓ Caveat emptor - “let the buyer beware”</li> <li>✓ Government involvement</li> <li>✓ Franklin D. Roosevelt             <ul style="list-style-type: none"> <li>• Monopoly laws</li> <li>• Social service</li> </ul> </li> <li>✓ Employees demand better working conditions</li> <li>✓ Consumers want safe, reliable products</li> <li>✓ Advocacy groups</li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 21</p>														
<p><b>Table 2.2: Early Government Regulations That Affected American Business</b></p> <table border="1"> <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> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 22</p>	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	<p><b>Views of Social Responsibility</b></p> <ul style="list-style-type: none"> <li>➢ <b>Economic Model</b> Society will benefit most when business is left alone to produce/market profitable products society needs</li> <li>➢ <b>Socioeconomic Model</b> Business should emphasize not only profits but also the impact of decisions on society</li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 23</p>	<p><b>Arguments For Increased Social Responsibility</b></p> <ul style="list-style-type: none"> <li>• Business is part of society and cannot ignore social issues</li> <li>• By helping resolve social issues, business can create a more stable environment for long-term profitability</li> <li>• Socially responsible decision making by firms can prevent increased government intervention, which could force businesses to do what they fail to do voluntarily</li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 24</p>
Government Regulation	Major Provisions															
Interstate Commerce Act (1887)	First federal act to regulate business practices; provided regulation of railroads and shipping rates															
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<p><b>Arguments Against Increased Social Responsibility</b></p> <ul style="list-style-type: none"> <li>• Managers responsible to stockholders, so want return on owners’ investment</li> <li>• Corporate time, money, and talent used to maximize profits, not solve society’s problems</li> <li>• Social problems affect society, so business should not be expected to solve these problems</li> <li>• Social issues are responsibility of elected officials and are accountable to voters</li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 25</p>	<p><b>Table 2.3: A Comparison of Models of Social Responsibility</b></p> <table border="1"> <thead> <tr> <th>Economic Model Primary Emphasis</th> <th>Socioeconomic Model Primary Emphasis</th> </tr> </thead> <tbody> <tr> <td>1. Production of natural resources</td> <td>1. Quality of life</td> </tr> <tr> <td>2. Exploitation of natural resources</td> <td>2. Conservation of natural resources</td> </tr> <tr> <td>3. Internal, market-based decisions</td> <td>3. Market-based decisions, with some community controls</td> </tr> <tr> <td>4. Economic returns (profits)</td> <td>4. Balance of economic returns and social returns</td> </tr> <tr> <td>5. Firmly or manager’s interest</td> <td>5. Firm’s and community’s interests</td> </tr> <tr> <td>6. Minor role for government</td> <td>6. Active government</td> </tr> </tbody> </table> <p><small>Source: Adapted from South Davis, William C. Friedman, and Robert L. Storrer. Business and Society: Concepts and Policy Issues. (New York: McGraw-Hill, 1995), p. 9. Used by permission of McGraw-Hill Book Company.</small></p> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 26</p>	Economic Model Primary Emphasis	Socioeconomic Model Primary Emphasis	1. Production of natural resources	1. Quality of life	2. Exploitation of natural resources	2. Conservation of natural resources	3. Internal, market-based decisions	3. Market-based decisions, with some community controls	4. Economic returns (profits)	4. Balance of economic returns and social returns	5. Firmly or manager’s interest	5. Firm’s and community’s interests	6. Minor role for government	6. Active government	<p><b>Recession and Responsibility</b></p> <p>Businesses and Responsibility: Will the economic crisis delay your social responsibility agenda, such as “going green?”</p> <p>Source: Bask &amp; Co. survey of 651 chief executive officers and managers. Margin of error: six percentage points.</p> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 27</p>
Economic Model Primary Emphasis	Socioeconomic Model Primary Emphasis															
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<p><b>Consumerism</b></p> <p>“...all activities undertaken to protect the rights of consumers.”</p> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 28</p>	<p><b>Six Basic Rights of Consumers</b></p> <p><b>Consumer Bill of Rights</b></p> <ol style="list-style-type: none"> <li>1. Right to Safety</li> <li>2. Right to Be Informed</li> <li>3. Right to Choose</li> <li>4. Right to Be Heard</li> </ol> <p><b>Additional Rights</b></p> <ol style="list-style-type: none"> <li>5. Right to Consumer Education</li> <li>6. Right to Service</li> </ol> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 29</p>	<p><b>Major Consumerism Forces</b></p> <ul style="list-style-type: none"> <li>• Individual Consumer Advocates</li> <li>• Consumer Organizations</li> <li>• Consumer Education Programs</li> <li>• Consumer Laws</li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 30</p>														



**Table 2.4: Major Federal Legislation Protecting Consumers Since 1960**

Federal Hazardous Substances Labeling Act (1960)	Warning labels on toxic household chemicals
Kefauver-Harris Drug Amendments (1962)	Drug testing and labeling for both generic and trade names
Cigarette Labeling Act (1965)	Warning labels on packages and ads
Fair Packaging and Labeling Act (1966)	Labels on products sold across states must include net wt, ingredients, and mfg name/address
Motor Vehicle Safety Act (1966)	Standards for safer cars
Wholesome Meat Act (1967)	Meat inspection within states

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**Table 2.4: Major Federal Legislation Protecting Consumers Since 1960**

Flammable Fabrics Act (1967)	Flammability standards for children's sleepwear
Truth in Lending Act (1968)	Finance charge disclosure in both dollars and annual percentage rates
Child Protection and Toy Act (1969)	Toys with mechanical or electrical defects banned from interstate commerce
Credit Card Liability Act (1970)	Card holder liability limited to \$50 per card; unsolicited cards stopped
Fair Credit Reporting Act (1971)	Consumers can get credit reports and correct errors
Consumer Product Safety Commission Act (1972)	Established Consumer Product Safety Commission

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**Table 2.4: Major Federal Legislation Protecting Consumers Since 1960**

Trade Regulation Rule	Cooling off period for door-to-door sales (1972)
Fair Credit Billing Act (1974)	Consumer can challenge billing errors
Equal Credit Opportunity Act (1974)	Equal credit opportunities for males/females and single/married people
Magnuson-Moss Warranty-Federal Trade Commission Act	Minimum standards for written consumer warranties for products over \$15
Amendments to Equal Credit Opportunity Act (1975, 1984)	Discrimination prohibited when granting credit
Fair Debt Collection Practices Act (1977)	Abusive collection practices by third parties outlawed

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**Table 2.4: Major Federal Legislation Protecting Consumers Since 1960**

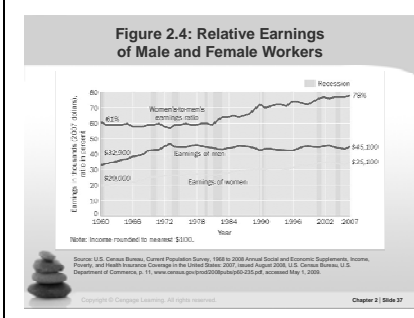
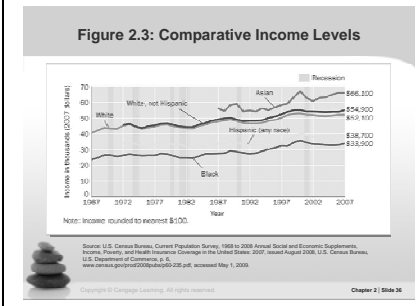
Drug Price Competition and Patent Restoration Act (1984)	Abbreviated procedure for registering generic drugs
Orphan Drug Act (1985)	Tax incentives encourage drugs for rare diseases
Nutrition Labeling and Education Act (1990)	FDA review of food labeling and packaging
Telephone Consumer Protection Act (1991)	Automated dialing and prerecorded-voice calling prohibited
Consumer Credit Reporting Reform Act (1997)	Credit issuers are responsible for accurate credit data
Children's Online Privacy Protection Act (2000)	Parents control what info is collected from kids; commercial websites must protect child info
Do Not Call Implementation Act (2003)	Directed the FCC and FTC to apply do-not-call rules on telemarketing

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**Minority**

“...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.”

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**Affirmative Action Program**

“...a plan designed to increase the number of minority employees, at all levels within an organization.”

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**Problems With Affirmative Action Programs**

- ✓ Quotas - reverse discrimination
- ✓ Not many business people are in favor

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**Equal Employment Opportunity Commission**

“...a government agency with power to investigate complaints of employment discrimination and power to sue firms that practice it.”

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**Hard-Core Unemployed**

“...workers with little education or vocational training and a long history of unemployment.”

**National Alliance of Business**  
 “...a joint business-government program to train the hard-core unemployed.”

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**Pollution**

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

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**Table 2.5: Summary of Major Environment Laws**

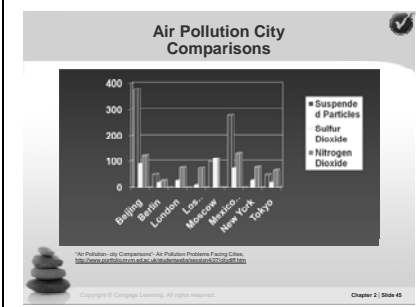
National Environmental Policy Act (1969)	Established EPA to enforce federal environmental laws
Clean Air Amendment (1970)	Automotive, thermal, and factory emission standards
Water Quality Improvement Act (1970)	Strengthened water regulations; provided for large firms
Resource Recovery Act (1970)	Expanded solid-waste disposal program; EPA enforcement
Water Pollution Control Act Amendment (1972)	Standards for cleaning nonpoint pollutants; elimination of harmful waste disposal by 1980
Noise Control Act (1972)	Standards for major sources of noise; EPA advises FAA on standards for planes
Clean Air Act Amendment (1977)	New standards for cleaning up polluted areas; review of air quality standards


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**Forms of Pollution**

- Water Pollution
- Air Pollution
  - Suspended Particles
  - Sulfur Dioxide
  - Nitrogen Dioxide
  - Land Pollution
- Noise Pollution

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<p><b>Who Should Pay for a Clean Environment?</b></p> <ul style="list-style-type: none"> <li>? Government</li> <li>? Business</li> <li>? Consumer</li> </ul>  <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 46</p>	<p><b>Who Should Pay for a Clean Environment?</b></p> <ul style="list-style-type: none"> <li>▪ Governments and businesses spend billions annually to reduce pollution</li> <li>▪ Much of the money required is supposed to come from already depressed industries</li> <li>▪ A few firms have discovered it is cheaper to pay a fine than to install equipment for pollution control</li> <li>▪ Many business leaders say tax money should be used because business is not the only source of pollution</li> <li>▪ Environmentalists say the cost is an expense of doing business</li> <li>▪ Consumers will probably pay a large part of the costs — either as taxes or in the form of higher prices</li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 47</p>	<p><b>Developing a Program of Social Responsibility</b></p> <ul style="list-style-type: none"> <li>✓ Secure the commitment of top executives</li> <li>✓ Plan the program</li> <li>✓ Appoint a top-level executive as director to implement the plan</li> <li>✓ Prepare a social audit             <ul style="list-style-type: none"> <li>• A comprehensive report of what the organization has done and is doing with regard to social issues that affect it</li> </ul> </li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 48</p>
<p><b>Funding the Program</b></p> <ul style="list-style-type: none"> <li>➢ Pass cost on to consumer in form of higher prices</li> <li>➢ Company forced to absorb cost of program and treated as a business expense</li> <li>➢ Federal government may pay for all or part through tax reductions or other incentives</li> </ul> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 49</p>	<p><b>Chapter Quiz</b></p> <ol style="list-style-type: none"> <li>1. Ethical issues often arise out of a business's relationship with             <ol style="list-style-type: none"> <li>a) investors.</li> <li>b) customers.</li> <li>c) employees.</li> <li>d) creditors.</li> <li>e) all of these.</li> </ol> </li> </ol> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 50</p>	<p><b>Chapter Quiz</b></p> <ol style="list-style-type: none"> <li>2. 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"> <li>a) the code of ethics.</li> <li>b) company policies and procedures.</li> <li>c) the individual.</li> <li>d) opportunity.</li> <li>e) social pressure.</li> </ol> </li> </ol> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 51</p>
<p><b>Chapter Quiz</b></p> <ol style="list-style-type: none"> <li>3. 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"> <li>a) bribes and payoffs are acceptable business activities in the United States.</li> <li>b) Americans are more ethical than foreigners.</li> <li>c) many foreigners do not speak English.</li> <li>d) the U.S. government cannot prosecute American companies for unethical or illegal acts committed on foreign soil.</li> <li>e) standards of ethical behavior vary from country to country.</li> </ol> </li> </ol> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 52</p>	<p><b>Chapter Quiz</b></p> <ol style="list-style-type: none"> <li>4. Proponents of the socioeconomic model use which of the following arguments to support their position?             <ol style="list-style-type: none"> <li>a) Business managers are responsible primarily to stockholders.</li> <li>b) Business has the technical, financial, and managerial resources needed to tackle today's complex social issues.</li> <li>c) Corporate time, money, and talent should be used to maximize profits, not to solve society's problems.</li> <li>d) Social problems affect society in general, so business probably should not be expected to solve such problems.</li> <li>e) Social issues are the sole responsibility of government officials elected to represent the people.</li> </ol> </li> </ol> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 53</p>	<p><b>Chapter Quiz</b></p> <ol style="list-style-type: none"> <li>5. 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"> <li>a) Better Business Bureau.</li> <li>b) Equal Employment Opportunity Commission.</li> <li>c) National Organization for Women.</li> <li>d) "Oprah Winfrey Show."</li> <li>e) National Alliance of Business.</li> </ol> </li> </ol> <p>Copyright © Cengage Learning. All rights reserved. Chapter 2   Slide 54</p>

## 2.6 GENERAL CHAPTER TEACHING TIPS

- This chapter contains three class activities that can be done in 10 to 20 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.
- 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?

## 2.7 COMPREHENSIVE LECTURE OUTLINE

### *Inside Business: FedEx Delivers Corporate Citizenship*

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

#### 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.

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**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.

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#### 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.

### III. FACTORS AFFECTING ETHICAL BEHAVIOR

#### Using the Boxed Inserts

##### Is It Ethical?:

##### Who Says?

*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.

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

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### CLASS ACTIVITY

*Resource Exercise:* The “To Take or Not to Take the Gift” exercise can be used here. It takes approximately 15 to 20 minutes.

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#### 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

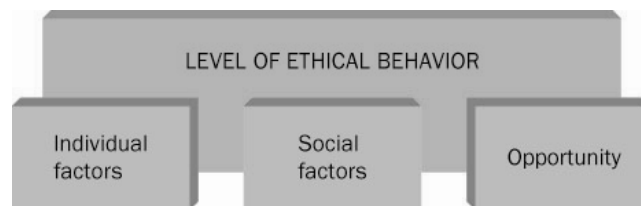
The types of personal goals an individual aspires to and the manner in which these goals are pursued have a significant impact on that individual’s behavior in an organization.

#### B. Social Factors Affecting Ethics

1. Cultural Norms

A person’s behavior in the workplace, to some degree, is

*Figure 2.1*



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 the University of Florida 2005 *National Retail Security Survey*, employee theft was estimated to be responsible for 47 percent of store inventory shrinkage. That represents an estimated employee theft price tag of about \$17.6 billion per year. This astounding figure makes employee dishonesty the greatest single threat to profitability at the store level.

(Source: Chris E. McGoey, "Employee Theft Retail Loss Prevention," *Crime Doctor website* [http://www.crimedoctor.com/employee\\_theft.htm](http://www.crimedoctor.com/employee_theft.htm), accessed July 29, 2009.)

## 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.

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#### 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 20-minute exercise asks students to develop a code for Internet use.*

---

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 general guidelines for making ethical decisions.

## 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, Jaguar, 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 \$400 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 50 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.

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***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.*

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## **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 60 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.

- 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, <http://deseretnews.com/dn/view/0,1249,640196531,00.htm>, accessed July 29, 2009.)*

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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.
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#### **CLASS ACTIVITY**

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

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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.

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**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, accessed April 29, 2009.

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**B. Major Consumerism Forces.** Major advances in consumerism have come through federal legislation. Some laws that have been passed since 1964 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.

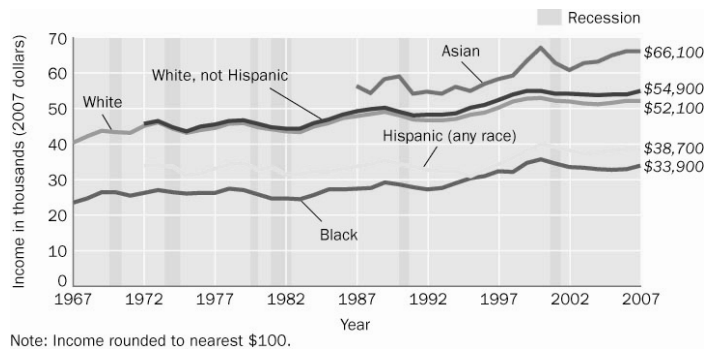
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**Discussion Starter:** At times, the rights of one group come into conflict with the rights of other groups. AT&T terminated an employee for refusing to sign a document agreeing to abide by the employer's "diversity philosophy." Due to his religious 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. (Source: See [www.findarticles.com/p/articles/mi\\_m3495/is\\_8\\_49/ai\\_n6171139/pg\\_2](http://www.findarticles.com/p/articles/mi_m3495/is_8_49/ai_n6171139/pg_2) for the full story, accessed July 29, 2009.)

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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 40 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.)
  - c) Lower incomes

**Figure 2.3**



and higher unemployment rates also affect Native Americans, handicapped persons, and women.

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.)

## 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.

**Figure 2.4**



## X. CONCERN FOR THE ENVIRONMENT

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

### 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.

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.

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*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, February 18, 2009, <http://www.democraticunderground.com/discuss/duboard.php>, accessed July 29, 2009.)*

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**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.



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

#### Global Economic Challenges:

##### How the Economy Affects Social Responsibility

***Suggested Question 1. When the global economy is strong, companies invest in social responsibility programs to do good and because it's good business. But what happens in difficult economic times?***

During the recent economic downturn, few companies completely abandoned their social responsibility efforts. Many hard-hit firms, such as the insurance giant AIG, continued to give at least some money to causes they regularly support. Others, including Google, fine-tuned their social responsibility investments to more closely connect the causes with their business objectives.

***Suggested Question 2. Travel-related firms saw sales plummet when businesses and industry groups canceled meetings during the recession. What did companies do in response?***

In response, the Ritz-Carlton hotel chain put the spotlight on its support of good causes by announcing it would donate to charity 10 percent of the total cost of any conference booked at one of its properties. The program appealed to business customers because, said a spokesperson, it “matches with many companies’ growing emphasis on corporate social responsibility.”

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.

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.

- 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.

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**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.

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## 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.

## 2.8 TEXTBOOK ANSWER KEYS

### 2.8a Concept Checks

#### Concept Check (p. 36)

**1. What is meant by business ethics?**

Business ethics is the application of moral standards to business situations.

**2. What are the different types of ethical concerns that may arise in the business world?**

Ethical issues often arise out of a business's relationship with investors, customers, employees, creditors, or competitors. There are three primary areas that ethical issues or concerns fall under: fairness and honesty, organizational relationships, and conflict of interest.

**3. Explain and give an example of how advertising can present ethical questions.**

Besides obeying all laws and regulations, businesspeople are expected to refrain from knowingly deceiving, misrepresenting, or intimidating others. False advertising certainly can present ethical questions.

#### Concept Check (p. 39)

**1. Describe several individual factors that influence the level of ethical behavior in an organization.**

Three general sets of factors appear to influence the standards of individual behavior in organizations. Individual factors include knowledge level, moral values and attitudes, and personal goals. Social factors include cultural norms and the actions and values of coworkers and significant others. Opportunity factors refer to the amount of leeway that exists in an organization for employees to behave unethically if they so choose.

**2. Explain several social factors that affect ethics in an organization.**

The social factors affecting ethics are cultural norms, coworkers, significant others, and use of the Internet. A person's behavior in the workplace is determined by cultural norms, which vary from one culture to another. Actions of coworkers can influence a person's sense of ethics. The moral values and attitudes of those closest to us can also impact our sense of ethics. Lastly, even the Internet presents new challenges for firms whose employees enjoy easy access to sites that may be questionable or unrelated to their jobs.

**3. How does "opportunity" influence the level of ethical behavior in the workplace?**

Opportunity refers to the amount of freedom an organization gives an employee to behave unethically if he or she makes that choice. In some organizations, certain company policies and

procedures reduce the opportunity to be unethical. For example, at some fast-food restaurants, one employee takes your order and receives your payment, and another fills the order. This procedure reduces the opportunity to be unethical because the person handling the money is not dispensing the product, and the person giving out the product is not handling the money.

### Concept Check (p. 47)

#### 1. How can the government encourage the ethical behavior of organizations?

The government can encourage ethical behavior by legislating more stringent regulations. For example, the landmark Sarbanes-Oxley Act of 2002 provides sweeping new legal protection for those who report corporate misconduct.

#### 2. What is trade associations' role in encouraging ethics?

Trade associations can and often do provide ethical guidelines for their members. These organizations, which operate within particular industries, are in an excellent position to exert pressure on members who stoop to questionable business practices.

#### 3. What is whistle-blowing? Who protects the whistle-blowers?

Whistle-blowing is informing the press or government officials about unethical practices within one's organization. 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.

#### 4. What is social responsibility? How can businesses be socially responsible?

Social responsibility is the recognition that business activities have an impact on society and the consideration of that impact in business decision making. Social responsibility can take many forms—including flying lessons. Through Young Eagles, underwritten by S. C. Johnson, Phillips Petroleum, Lockheed Martin, Jaguar, and other corporations, 22,000 volunteer pilots have taken a half million youngsters on free flights designed to teach flying basics and inspire excitement about flying careers. Young Eagles is just one of the growing number of education projects undertaken by businesses building solid records as good corporate citizens. There are many other examples of businesses acting socially responsible in our text.

**Concept Check (p. 48)****1. Outline the historical evolution of business social responsibility.**

During the first quarter of the twentieth century, businesses were free to operate pretty much as they chose. Government protection of workers and consumers was minimal. Working conditions often were deplorable by today's standards. The collapse of the stock market on October 29, 1929, triggered the Great Depression and years of dire economic problems for the United States. Soon after Franklin D. Roosevelt was inaugurated as president in 1933, he instituted programs to restore the economy and improve social conditions. Laws were passed to correct what many viewed as the monopolistic abuses of big business, and various social services were provided for individuals. These massive federal programs became the foundation for increased government involvement in the dealings between business and society. As government involvement has increased, so has everyone's awareness of the social responsibility of business.

**2. What is the doctrine of caveat emptor?**

Caveat emptor is a Latin phrase meaning "let the buyer beware." In other words, "what you see is what you get," and if it is not what you expected, too bad.

**3. What are the six important business-related federal laws passed between 1887 and 1914?**

The six important business-related federal laws are: (1) Interstate Commerce Act (1887), (2) Sherman Antitrust Act (1890), (3) Pure Food and Drug Act (1906), (4) Meat Inspection Act (1906), (5) Federal Trade Commission Act (1914), and (6) Clayton Antitrust Act (1914).

**Concept Check (p. 50)****1. Explain the two views on the social responsibility of business.**

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. The socioeconomic model of social responsibility places emphasis not only on profits but also on the impact of business decisions on society.

**2. What are the arguments for increased social responsibility?**

Proponents of the socioeconomic model maintain that a business must do more than simply seek profits. To support their position, they offer the following arguments:

- a. Because business is a part of our society, it cannot ignore social issues.
- b. Business has the technical, financial, and managerial resources 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 firms can prevent increased government intervention, which would force businesses to do what they fail to do voluntarily.

### 3. What are the arguments against increased social responsibility?

Opponents of the socioeconomic model argue that business should do what it does best: earn a profit by manufacturing and marketing products that people want. Those who support this position argue as follows:

- a. Business managers are responsible primarily 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.

### Concept Check (p. 52)

#### 1. Describe the six basic rights of consumers.

The six basic rights of consumers are:

*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.

**2. What are the major forces in consumerism today?**

The major forces in consumerism are individual consumer advocates and organizations, consumer education programs, and consumer laws.

**3. What are some of the federal laws enacted in the last 50 years to protect your rights as a consumer?**

There were many laws enacted over the past 50 years to protect rights of consumers. Table 2.4 provides a comprehensive list of many of them. They include such legislation as the (1) Federal Hazardous Substances Labeling Act (1960), (2) Kefauver-Harris Drug Amendments (1962), and (3) Cigarette Labeling Act (1965).

**Concept Check (p. 56)**

**1. What is an affirmative action program? What is its purpose?**

An affirmative action program is a plan designed to increase the number of minority employees at all levels within an organization. The purpose is to ensure that minorities are represented within the organization in approximately the same proportion as in the surrounding community.

**2. Why did Congress create (and later strengthened) the Equal Employment Opportunity Commission?**

The Equal Employment Opportunity Commission (EEOC) is a government agency with the power to investigate complaints of employment discrimination and sue firms that practice it. Congress created it to help solve the problems of discrimination.

**3. What is the National Alliance of Business?**

The National Alliance of Business (NAB) is a joint business-government program to train the hard-core unemployed.

**Concept Check (p. 59)**

**1. Describe the major types of pollution? What are their causes, and their cures?**

The major types of pollution are water, air, land, and noise.

**2. Summarize major provisions of federal environmental laws enacted since 1970.**

Table 2.5 is a summary of major environmental laws beginning with the National Environmental Policy Act (1970) and the Clean Air Amendment (1970).

### 3. Who should pay for a clean environment?

Between consumers, business, and government, it is difficult to say who should pay. There are clear examples where each should pay, but in many cases the answer is not clear at all. Who should pay will be debated well into the future, but in the end it will be the consumer.

#### Concept Check (p. 60)

#### 1. What steps must a business take to implement a program of social responsibility?

In most cases, developing and implementing such a program will require four steps: securing the commitment of top executives, planning, appointing a director, and preparing a social audit.

#### 2. What is the social audit? Who should prepare a social audit for the firm?

A social audit is a comprehensive report, directed by management, of what an organization has done and is doing with regard to social issues that affect it.

#### 3. What are the three sources of funding the social responsibility program?

Funding can come from three sources:

- a. Management can pass the cost on to consumers in the form of higher prices.
- b. The corporation may be forced to absorb the cost of the program if, for example, the competitive situation does not permit a price increase. In this case, the cost is treated as a business expense, and profit is reduced.
- c. The federal government may pay for all or part of the cost through tax reductions or other incentives.

## 2.8b 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.

## 2.8c Comments on Video Case

*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.

## 2.8d Building Skills for Career Success

### 1. Exploring the Internet

Socially responsible business behavior can be as simple as donating unneeded older computers to schools, mentoring interested learners in good business practices, or supplying public speakers to talk about career opportunities. Students, as part of the public at large, perceive a great deal of information about a company, its employees, and its owners by the positive social actions taken and perhaps even more by actions not taken. Microsoft donates millions of dollars of computers and software to educational institutions every year. Some people consider this level of corporate giving to be insufficient given the scale of the wealth of the corporation. Others believe that firms have no obligation to give back any more than they wish and that recipients should be grateful. Visit the text website for updates to this exercise.

### 2. 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.

### 3. 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?).

## 2.9 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.

## 2.10 ANSWER KEY FOR QUIZZES I AND II

### 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

## 2.11 CLASSROOM EXERCISES

### 2.11a 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.

### 2.11b 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 20 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. An examples you will find on the web is Microsoft’s Small Business site (<http://www.microsoft.com/smallbusiness/support/checklist/step3.msp>).  
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 10 to 15 minutes. Sample answers are provided.

### 2.11c 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 15-minute breaks.

In your groups, develop a policy and set of guidelines for computer/Internet usage for the Pupster Dog Fashions company. You have 20 minutes. Be as specific as possible in developing your guidelines.

**Your policy should contain the following elements:**

- **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

**Monitoring 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 is prohibited.
- The accessing, viewing, downloading, or any other method for retrieving offensive entertainment on pornographic sites is prohibited.

### Monitoring 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 it always deliver hot pizza in 30 minutes, it 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 is “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.