# SOLUTIONS MANUAL

THIRD EDITION

# MANAGEMENT

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# CHAPTER 2

# SOCIAL RESPONSIBILITY & MANAGERIAL ETHICS

*I tend to divide the chapter into three levels of analysis: individual ethics, corporate ethics, and the government's involvement in ethics. It is also productive to return to the ethics material from this chapter when teaching decision making (Chapter 12) and remind students of the importance of taking ethics into consideration when making decisions.*

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MANAGERIAL CHALLENGES FROM THE FRONT LINE:
*Sharon Anderson Wright, CEO, Half Price Books*

Half Price Books is the country's largest used-book company in the US. A family business, over the last 33 years, it has grown to 100 stores in 16 states, $210 million in revenues, and 2,500 employees. Anderson does not run the business just for profit. She also donated millions of dollars in books to hospitals, schools, and prisons, and sponsors literacy programs. The company is dedicated to recycling and has saved over 650,000 trees. They also encourage their employees to follow their own charitable ideas. The company has grown so much that costs have escalated. A current concern is whether or not they can continue to pay health benefits for their part-time employees.

*Suggested Questions:*

1. Why would a company give away so much? What's in it for them?
2. Should the company pay for the health benefits? Should they cut another program to do so, for example the literacy program?
3. Do you think it is right for the CEO and top management to try to get their workers involved in even more charities? Why should the workers do that?

*Check it out*! http://www.halfpricebooks.com/index.html

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There are three major segments to this chapter:
1. Managerial Ethics: the study of morality and standards of business conduct
2. Corporate Social Responsibility: the obligations that corporations owe to their constituencies such as shareholders, employees, customers, and citizens at large
3. How to improve the ethical climate in organizations

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**PART 1 -- ETHICS**

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*ENHANCEMENT:  Suggestions for beginning a class on ethics*
I usually teach in large classes where it can be difficult to involve students in discussing the day's subject. My students are frequently more than willing to allow someone else to answer questions. With ethics, this can be especially problematic as many of the students begin by

believing that this is a subject for a philosophy class, not a management class. Therefore, I try to begin the class by somewhat forcing them into a discussion frame of mind. Once they begin discussing this topic, I have found that students become quite animated and share numerous examples of ethical dilemmas they or their friends or families have confronted. This usually ends up being one of the most interesting classes of the entire term.

Here is how I typically start the ethics class:

1. I alert the students that I tend to interchange the term values with ethics so there will be no misunderstandings.
2. I then pose a series of questions:
   a. What are ethics?
      o The American Heritage Dictionary and Merriam Webster's Dictionary define ethics in similar terms: as a set of principles governing right and wrong **behavior** by individuals and groups.
      o It can be important to emphasize that ethics involve behavior, not just attitudes.
   b. Are you born knowing ethics? Is your value system genetic?
      o The students usually answer 'no' immediately which sets up the next question(s).
   c. Where do you learn your ethics?
      o parents, teachers, friends, religion, TV, etc
      o I try to get them to give me examples of the types of values they have learned from each group – good and bad!
   d. How did you learn them?
      o If you can work this in and get students thinking about how they learned from the examples set by others, by specific verbal instructions, through religious parables, through situations seen in movies or on television, and through seeing the consequences of bad ethical decisions related in the news, this will help later in the discussion of how companies can improve ethical climates and why it is so important for managers to <u>act</u> ethically instead of just telling others to act ethically.
   e. Is there such a thing as business ethics?
      o Business ethics are merely a subset of general ethics covering right and wrong behavior by individuals and groups in organizations.
      o This is the question that usually increases the level of student involvement. I like to follow it up with a seemingly simple question:
   f. Is it ever ok to lie in business?
      o This question generally results in a lively discussion with most students saying it depends, with a few adamantly opposed, and some saying it is absolutely necessary.
      o This can set up a discussion of relative ethics, gaming ethics, and absolutism.
      o Later, when discussing approaches to ethical decision making (e.g.; utilitarianism, universalism, moral rights etc), you can refer back to some of these examples given by the students.

## *ENHANCEMENT:  Lying in Business*

One of my all time favorite articles is "The Art of Lying:  Can it be a good thing?" by Jerry Useem.  This article appeared in the December, 20, 1999, issue of Fortune magazine.  It has numerous examples of creative lying by individuals trying to start businesses who later justify their lies by pointing to how successful they are.

The article concludes with several examples of 'great big whoppers!'

1872: Standard Oil's John D. Rockefeller conspires with the railroads to handicap his competitors through the South Improvement Co.  Under oath, he lies about his ties to the organization.

1920: Boston businessman Charles Ponzi promises investors a 50% return within 45 days if they put money into his postal-coupon Plan. In fact, Ponzi pockets most of the money after paying off early investors with cash from his latest victims.

1937: Under CEO Donald Coster, drug company McKesson & Robbins reports $10 million in revenues from a drug division that doesn't exist. Coster, it turns out, was actually an ex-con named Philip Musica.

1980s: Industrialist Armand Hammer cements his reputation as dean of America's frequent-liars club. When Hammer's wife suspects he is having an affair with art adviser Martha Kaufman, he persuades Kaufman to wear a wig and change her name to Hilary Gibson.

1989: Hoping to conceal a $15 million revenue shortfall, MiniScribe ships bricks packaged to look like finished disk drives. (It doesn't work.)

1994: Bankers Trust lies to clients about the extent of derivatives losses. "We told him $8.1 million when the real number was 14," one BT official says in a taped conversation. "So now if the real number is 16, we'll tell him that it is 11."

1999: MCI WorldCom registers [www.skytelworldcom.com](www.skytelworldcom.com) yet declares that "the action is not an indication of official company intention" to acquire SkyTel. Days later, MCI buys SkyTel. Whoops! Investors sue, alleging that they were purposely misled.

1999: Madison Square Garden's Dave Checketts denies having met Phil Jackson to discuss the Knicks coaching job. He had.

1999: Jeff Papows, president of Lotus, is accused of telling tall tales. Among other things, he wasn't orphaned and didn't earn a Ph.D. from Pepperdine. "I, in some senses, am guilty of exaggerating and embellishing for a purpose from a business standpoint," he says.

g.  Are ethics the same as laws?
   o  Ethics and laws are not the same. However, serious, continuing ethical lapses can lead the government to make laws to cover certain situations.  A good example

here is discrimination.  Whether or not to discriminate in hiring was an ethical decision until Title VII of the Civil Rights Act of 1964. Each individual business owner and manager had to determine for him or herself whether or not to discriminate, against whom, and in what situations.  Title VII of the Civil Rights Act made discrimination a crime.  The law mandated the minimal acceptable standards for the United States in terms of employment, voting, fair housing, education, etc.

    h.  Which holds you to a higher standard of behavior?
- Laws tell us what we MUST do; Ethics tell us what we SHOULD do. Ethics tend to hold us to a higher standard of behavior than do laws.

3.  All of these questions set the tone of discourse for the class, involve the students in the discussion and help to set up several of the elements touched on in the chapter.
4.  Finally, I like to ask them why it is important for managers to consider ethics
    a.  Bad organizational ethics frequently results in negative publicity which can:
        i.  Lower stock value resulting in lower income and earnings to shareholders
        ii.  Make it more difficult for the offending company to recruit the best and brightest of those on the job market
    b.  Good ethical behavior on the part of organizations results in positive consequences for
        i.  Shareholders – through higher earnings
        ii.  Customers – through improved trust
        iii.  Employees – through a better work climate
        iv.  Communities – through alignment with better corporate citizens

One last thing – I point out that this topic can provoke many different, and sometimes emotional, reactions in the students.  I ask them to please remember that we are discussing an area where it can be very difficult to reach consensus as to a right or wrong answer, and that frequently a "right" answer may not even exist.  I warn them of the need to avoid value judgments and to focus on the material.

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THE DEVELOPMENT OF INDIVIDUAL ETHICS

1.  Managerial Ethics is concerned with morality and the standards of business conducts among individuals.
2.  Top management begins the development of an ethical climate through the culture they build
3.  Most individual's ethical beliefs are developed early in life through the influence of family, friends, school, and religion.
4.  Different cultures develop different ethical beliefs
    a.  Increasing diversity in organizations can result in ethical clashes
    b.  It is important to avoid value judgments about differing ethical beliefs: learn tolerance
    c.  Balance tolerance with an assessment of the outcomes of differing ethical beliefs on the company.

UNDERSTANDING BASIC APPROACHES TO ETHICS

There are two definitions that need to be understood at this point. They are reasons we examine the basic approaches to decision making in the next section of the chapter.
1. Ethical Dilemma: The learning issue is "how should you make decisions in the face of an ethical dilemma?"
    a. The choice between two competing but valid options
    b. A dilemma exists when there is no clear cut "right" answer.
    c. Students do not always understand that an ethical dilemma is not a choice between a good and a bad option.  The choice can also be between two good options or two seemingly bad options.
    d. The basic approaches to decision making can help to explain how decision makers rationalize their choices.
2. Ethical Lapse: The learning issue is "what approaches to decision making will enable me to avoid an ethical lapse?"
    a. A decision that one makes that is opposite to one's stated beliefs and/or the policy of the organization.
    b. The basic approaches to decision making can explain why decision makers appear to make decisions that run contrary to their own or the organization's stated ethics.
    c. The basic approaches to decision making also explain the rationale decision makers use when caught in these lapses.

BASIC APPROACHES TO ETHICAL DECISION MAKING

   1. Utilitarian Approach
        a. The decision between two or more alternatives is made on the basis of which alternative will provide the most "good."
        b. Students will relate to this easily as a cost/benefit analysis.
             i. The manager calculates the costs and benefits for each potential decision
            ii. The manager chooses the decision in which the benefits most outweigh the costs.
        c. There are several problems with this approach.
             i. It is difficult to place a monetary value on many items involved in such an analysis.  For example, what is the value of a human life? Of chronic illness? Of clean air or water?
            ii. How far into the future does a decision maker need to go in assessing potential costs and benefits? What if costs don't show up for 6 months? One year? 20 years?
           iii. What is considered a negative cost in one culture or to one manager may be viewed more favorably, even as a benefit in another culture or to another manager.  Therefore, decision makers from different cultures will weight the costs and benefits differently leading to different decisions. Yet each manager can claim his/her decision is an ethical one.
   2. Moral Rights Approach
        a. First an action is judged right or wrong on the merits of the action alone.  Is it ever right to lie?  Is it ever right to kill?

    b. If the action is judged to be wrong, then even if it results in positive outcomes, it is still an unethical action.

    c. Additionally, this approach does not consider the antecedents of an action. Why do you find it necessary to lie, or steal, or kill? This is considered irrelevant to the determination of the rightness or wrongness of the action.

    d. This is a very black and white way of looking at the world. The problem is that most situations seem to be composed of shades of gray.

3. Universal Approach
    a. Based on the writings of Kant
        i. All rights stem from freedom and autonomy and any decision or action that limits another's freedom or autonomy in any way is unethical.

    b. Can be compared to the "Golden Rule."
        i. People are encouraged to make decisions based on whether or not they themselves would want to be treated in this manner.
        ii. If you are willing to treat one individual or group in a certain way, then you should be willing to treat all individuals or groups in the same way.

4. Justice Approach
    a. Procedural Justice – a question of equality
        i. Are the procedures used to make the decision fair to all involved? Is everyone treated alike? This is the basis for laws against intentional discrimination.

    b. Distributive Justice – a question of equity
        i. Are the costs and benefits associated with the decision or action applied fairly to each person involved?
        ii. Are those who will suffer the greatest harm awarded the highest benefits?
        iii. This is an important concern is questions of unintentional discrimination – disparate impact.

    c. Compensatory Justice
        i. If procedural and/or distributive justice has failed, are those who were harmed by the failure adequately and fairly recompensed?
        ii. This is the basis for affirmative action.

    d. Two new areas of justice research include:
        i. Interpersonal Justice: the respectful and polite treatment of others
        ii. Informational Justice: the timely communication of or reasonable explanation of organizational actions.

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## ENHANCEMENT:  Additional decision justifications

There are many ways in which managers (and other individuals) justify their decision to themselves and to others, before and after the fact.

- 🔴 <u>HEDONISM</u>:  I  DID WHAT WAS RIGHT FOR ME -- SELF INTEREST
- 🔴 <u>MIGHT EQUALS RIGHT</u>:  I  DID IT BECAUSE I COULD

- o For a multitude of examples of bosses who do what they want because they can and who do not seem to worry about the ethics of their actions, see: Miller, James, B. (1998). <u>Best Boss. Worst Boss</u>. Simon & Schuster: New York.
  - o A more recent book, "Good Boss, Bad Boss: How to be the best…and learn from the worst" (Robert Sutton, 2010) offers even more examples that can be used here.
- 🔴 <u>CONVENTIONALISM</u>: THERE WAS A LEGAL LOOPHOLE, OR, EVERYONE ELSE DOES IT.
  - o This is how many justify cheating on their taxes, downloading software, music, movies or other intellectual property.
- 🔴 <u>ORGANIZATIONAL ETHICS</u>: MY DECISION REFLECTS ORGANIZATIONAL POLICY
  - o Students may recognize this as the Nuremberg Defense – I was only following orders!
- 🔴 <u>ENDS JUSTIFY THE MEANS</u>: IT DOESN'T MATTER WHAT I DO OR HOW I DO IT AS LONG AS IT COMES OUT ALL RIGHT.
  - o This is a good one to use if discussing "is it ever ok to lie in business?"
- 🔴 <u>PROFESSIONAL ETHICS</u>: MY DECISION IS SUPPORTED BY CONCENSUS OF THOSE IN MY PROFESSION
  - o This can explain why the managers and the physicians in HMOs can each justify their decisions as ethical and correct.
    - The managers have an ethical code that requires containing costs in order to maximize profits for the owners. That is what is expected of them if they are doing their job correctly. No other behavior would be ethical. Therefore, managers in HMOs try to limit physician time with patients, limit the number and scope of tests, and limit the length of hospital stays. Cost containment is of paramount importance. They consider their primary ethical responsibility to be to the owners.
    - The physicians perceive their ethical responsibility to be to the patients. Their primary ethical code calls for them to spend whatever time, energy and resources is necessary to determine the underlying etiology of the illness and to cure it. This places them in direct opposition to the managers. Yet both groups can claim they are acting ethically.
- 🔴 <u>DISCLOSURE</u>: I WILL STILL CONSIDER IT TO BE ETHICAL, EVEN IF THE PRESS FINDS OUT ABOUT IT.
  - o I call this the "60 Minutes Rule." Would you still make this decision if the reporters at 60 Minutes were going to find out about it and want to talk to you about it?

MORAL INTENSITY IN ETHICAL DECISION MAKING
- Moral Intensity is the degree to which people see an issue as an ethical one
- The degree of intensity is related to the content of the decision
- Decision makers may focus on different elements of moral intensity when analyzing a situation and consequently arrive at different decisions.
- Although these factors are presented individually, frequently more than one will be considered. The factors may be weighted differently by the decision maker. The effects may be considered in terms of their interactions and multiplicative or additive effects.

In this section, I am going to alter the order of the elements from that presented in the text. I have found the following order helps the students understand and internalize this information more easily.

1. Magnitude of the Consequences
   - The more people affected negatively by the action, the greater the ethical intensity of the decision.
   - Decision makers will be increasingly likely to consider the ethical consequences and ramifications of a decision or action as greater numbers of people are affected.
2. Concentration of Effect
   - The higher the concentration of those affected within a given population, the greater the ethical intensity, and the more likely decision makers are to take the ethical component of the decision into account

## ENHANCEMENT: Explaining Magnitude of Consequences vs. Concentration of Effect

*These two components can explain why decision makers considering the same exact problem can arrive at two completely different decisions.*

Imagine two managers are preparing for a meeting with the CEO where they will each be asked to recommend which of two plants to close. Each of them, recognizing the difficulties which will face the laid off workers, is worried about the ethics of the decision.
- At Plant A, located in Los Angeles (pop. 10 million), 10,000 workers will lose their jobs.
- At Plant B, located in Parkersburg, W. Virginia (pop. 32,000), 3200 workers will lose their jobs.

   o Manager #1 who focuses on the magnitude of the consequences decides to recommend that the W. Virginia facility be closed. After all, isn't it better that only 3200 lose their jobs rather than 10,000?

   o Manager #2, focusing on the concentration of the effect, recommends that the Los Angeles plant be shut down. The

number of workers laid off in LA represents a mere 0.001% of the population, and there are many other jobs available in the area.  If they close the W. Virginia plant, they will be laying off a full 10% of the population in a small town where they will have very little chance of finding comparable work.

For an interesting look at how the closing of a plant can hurt an entire town, see Roger and Me, a documentary by Michael Moore. This is his take on the closing of the General Motors plant in Flint, Michigan.  He interviews numerous townspeople and follows the effects on their lives. You may not want to show the entire film in your class, however, there are several examples in the film of the effects of a large plant closure.

3. Probability of Effect
   a. This factor involves two issues:
      i. Could there be negative consequences?
      ii. How likely are those consequences to occur?
   b. The intensity with which decision makers regard such a situation as an ethical dilemma depends on the probability that the effects will occur.
      i. As the likelihood of negative health effects from smoking increased, law makers became more and more concerned about their responsibility to keep the public safe.
      ii. Therefore, information about the increasingly high probability of smoking related illnesses led to the printing of the Surgeon's General's warning on all packs of cigarettes as well as the ban on television advertising of cigarettes.
   c. So, the greater the probability of effect, the greater the ethical intensity of a decision.
4. Temporal Immediacy
   a. This factor involves the time element between the action and its consequences.
   b. The less time that passes between an action and its negative consequences, the more decision makers feel the need to consider the ethical components of the decision.
   c. If the effects of a decision will not be felt for a long time, decision makers tend to ignore any ethical questions involved in the decision.
   d. For example:  Shall we dump our toxic chemical waste in a safe but expensive site or save money and dump it down by the riverside?
      i. The effects of illegal dumping may be felt immediately increasing the ethical intensity. Therefore the decision maker would be more likely to focus on the ethics involved in making the decision.
      ii. Since negative consequences from legal disposal of the toxic waste are unlikely to be encountered anytime soon, the decision maker doesn't consider them in the decision process.
   e. Therefore, the greater the temporal immediacy, the greater the ethical intensity.
5. Proximity

a. This works the same way as Temporal Immediacy only substituting closeness (physical or emotional) for time
b. The ethical component of a decision is more likely to be considered when ones friends, family, coworkers, or community will be affected.
c. If the effects will only be felt by unknown individuals in another city, country or continent, the decision maker is much less likely to consider the ethics of the decision.
d. Therefore, the greater the proximity, the greater the ethical intensity.
6. Social Consensus
a. I leave this element for last because it is the only one wherein the lower the factor, the greater the ethical intensity.
b. I find it important to explain consensus to my students. Otherwise, they have a great deal of difficulty understanding this factor.
   i. Consensus = general agreement
   ii. It doesn't matter if the outcome is good or bad, high consensus simply means that everyone agrees that the outcome will be good or bad
      1. In this situation, it is easy to make a decision. Everyone else already agrees that the action would be right or wrong. The decision maker does not need to decide this.
   iii. When consensus is low, no one can agree which decision to make or whether a given decision is a good or bad one. When the group is divided 50/50, it is extremely difficult to make the decision and the ethical component becomes much more important.
c. Therefore, the LOWER the social consensus, the greater the ethical intensity.

A MANAGER'S CHALLENGE:
*Laboring for Nike around the World?*

This narrative chronicles the efforts of Nike to improve conditions in factories in the third world where its shoes and clothing are manufactured even though Nike does not own these factories but, rather, subcontracts to them. Following lawsuits in the late 1990s, Nike set up its own watchdog organization, SHAPE, and joined with other companies around the world as a signatory to the UN sponsored Global contract committed to improving working conditions and to CERES which addresses environmental concerns. They also allowed the Fair Labor Assn. to post the results of their audits of factory working conditions on the internet for the public.

As a result of these audits, both SHAPE and FLA, Nike has cut its ties to certain manufacturers who did not live up to Nike's standards. However, Nike then has to balance withdrawing its contracts from a plant with the loss of jobs of those workers.

▪ This case provides an opportunity for students to analyze Nike's actions utilizing the both the basic approaches to ethical reasoning and the factors of moral intensity.

- In addition, this case provides a lead in to the question of how managers can improve the ethical climate in their organizations.

*Suggested Questions:*
1. What do you think is the level of social consensus regarding factory working conditions? Do you feel public attitudes played a part in Nike's efforts?
2. Consider the issue of temporal *immediacy.* How quickly might the negative consequences of poor working conditions be felt?
3. Consider *proximity.* Are people in the United States really going to be concerned about working conditions in third world countries? How much do you think this issue affected Nike's actions towards factory conditions?
4. Does Nike really have any ethical responsibility for the conditions in factories it does not own?
5. (In anticipation of the third section of the text) What specific actions of Nike's do you think will do the most to improve the ethical climate in these factories?

*Check it out!* Nike's code of business ethics:
http://invest.nike.com/phoenix.zhtml?c=100529&p=irol-govConduct

SOCIAL RESPONSIBILITY
*To whom are corporations responsible, and what are the nature and extent of these responsibilities?*
*Another way of phrasing this that students immediately understand is: Should organizations be involved in social issues? Yes (social responsibility perspective) or no (efficiency perspective)?*

1. The Efficiency Perspective
   *It is impossible (inefficient) for organizations to simultaneously maximize shareholder wealth and satisfy society's needs. The government should be the caretaker of society's needs.*
   a. Adam Smith, in 1776, proposed that society would be best served by allowing market forces to allocate scarce resources. He proposed that business owners would act in their own self-interest to satisfy the marketplace.
      i. Managers as Owners: if society demands certain safety and environmental standards, managers will operate in their own self interest to provide these elements as this will maximize profits.
   b. Milton Friedman is the leading proponent of this perspective. He stated that "The only business of business is business." He meant that the only acceptable and ethical use of company funds is to improve the business and maximize profits for the owners.
      i. Managers as Agents: today, managers are most likely not owners and so are not acting in their own self-interest. Friedman stated that managers should conduct business in accordance with [owners'] desires, which will generally be to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom."
   c. Concerns with the Efficiency Perspective

      i.  It assumes that markets are effective.
     ii.  It assumes that competitive forces in effective markets will act to fulfill societal needs.
   iii.  Government should handle social issues not reflected in market forces.
   iv.  Corrective action to live up to society's demands frequently takes place <u>after</u> the damage has been done.
    v.  In the effort to maximize profit, companies can create 'externalities': unanticipated outcomes for which they are responsible but whose costs are borne by society not by the organization.

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A MANAGER'S CHALLENGE
*Poisoned Profits at Peanut Corporation of America*

In 2009, 19,000 people became ill and 8 died after eating foods that contained peanut products from the Peanut Corporation of America (PCA). In 2007-2008, the FDA cited the PCA 12 times for the presence of salmonella but the PCA did their own tests and claimed they found no presence of salmonella. They continued selling their peanuts to many food manufacturers for use in producing over 2,100 foods.

The case provides a great example of :
1. A company so focused on cutting costs to increase profits that it creates poor working conditions, increases worker disinterest in doing a good job, and refuses to believe and act on notices of salmonella from the FDA.
2. The externalities that can result from one company's refusal to consider the consequences of its actions.

*Suggested Questions:*
1. Which perspective on the question of corporate social responsibility does the PCA reflect?
2. Describe the externalities present in this case.
3. What do you feel is the major cause of this situation?
4. How could the PCA have handled this situation in order to avoid bankruptcy?

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  2.  Social Responsibility Perspective
     *Society grants existence to firms, therefore, firms have responsibilities and obligations to society as a whole not just to shareholders.*
     a.  Stakeholders
        i.  Individuals or groups that have an interest in and are affected by the actions of an organization.
       ii.  These include customers, employees, financiers, suppliers, communities, society at large, and shareholders (owners).
      iii.  Decisions should be made and actions taken that provide a reasonable return to shareholders while also taking into consideration the needs of the other stakeholders.
     b.  Concerns with the Social Responsibility Perspective

       i.  How do you really define 'reasonable returns' and 'legitimate concerns?'
     ii.  The concerns of the various stakeholders may conflict with each other making it virtually impossible to satisfy all of them.

## ENHANCEMENT:  *More on Stakeholders*

1. Stakeholders can be divided into two distinct groups – and an special case:
   a. Primary Stakeholders
      i. Those with a direct economic stake in the decisions and actions of an organization
      ii. These include owners, creditors, suppliers, customers, and employees
   b. Secondary Stakeholders:
      i. This group includes all those with an interest in the activities of organizations but without a direct economic tie to the company
      ii. These include community groups, the press, and environmental and other interest groups
   c. The Government:  A special case.
      i. As tax collector the government is a primary stakeholder
      ii. As regulator, the government is a secondary stakeholder.

2. Stakeholders wield three types of power:
   a. Voting:  This pertains to Shareholders only.  For each share of common stock held, a shareholder has one vote in the governance of the organization. When shareholders combine, they can wield a great deal of influence over the running of a company.  One of the most famous recent shareholder revolts came at Disney when stock owners combined with ousted board members to demand change.
   b. Economic:  this is the power we all have to influence organizations through what we buy. This is Adam Smith's invisible hand of the marketplace.  When stakeholders are unhappy, they can organize boycotts such as the boycott of green table grapes in the 1960s which led to the unionization of farm workers. Another example is the influence many conservative groups try to wield over television content by threatening to boycott advertisers of shows the groups do not approve of.
   c. Political:  this is the power wielded by groups that attempt to influence organizational decisions and actions through appeals to the government.  Groups attempt to inspire, amend, or end regulations that support their agendas. These include political action committees, lobbyists, and grass roots organizations.

3. Managers can analyze a situation using this material to develop a "Stakeholder Map." This mapping technique allows managers to identify the stakeholders interested in a specific issue, note the type and amount of power wielded by each, and craft a decision or action that will satisfy each as far as possible.

## *The Eco-Cup at Starbuck's*

The challenge to Starbuck's was to come up with an eco-friendly coffee cup. From 1971 – 1996, Starbuck's double cupped their coffee to insulate customers from the heat. In 1996, Starbuck's ran a contest for a recycled cup that would stand up well, insulate the beverage, and not have a smell or taste that would detract from the coffee, and which could gain FDA approval.

There was no winner in 1996. In 1997, Starbuck's started using a 60% recycled sleeve. In 1999, they tested a 50% recycled cup – but it failed because it was too flimsy and sometimes leaked. Finally in 2004, Starbuck's and three partner companies developed a cup that was able to gain FDA approval. They began using this 10% recycled cup in 2006.

Starbuck's intends to continue to try to increase the amount of recycled material in its cups. However the 2006 cup is estimated to save 5 million pounds of paper, 80,000 trees, and 47 million gallons of wastewater per year.

*Suggested Questions:*

1. Who are the stakeholders in this situation? Draw a stakeholder map for this issue.
2. How would you characterize Starbuck's response? Defender? Accommodator? Reactor? Anticipator?
3. Use the Matrix of Criteria for Strategic CSR (exhibit 2.4) to analyze Starbuck's choice of social issues. Does it fit the criteria for strategic CSR?

*Check it out!*
 http://news.starbucks.com/news/starbucks+honored+with+most+ethical+company+in+europe+award.htm   Another example of how Starbucks is involved in environmental issues – the use of fair trade coffee.

3. Comparing the Efficiency and Stakeholder Perspectives
   a. They differ in the constituencies to which they feel responsible.
   b. There is little difference in the actions which each consider harmful to the firm (see exhibit 2.1)
      i. From the efficiency perspective, it is ok to behave in a way that benefits shareholders but harms other stakeholders
      ii. The social responsibility perspective would find this type of action irresponsible.
4. Corporate Responses
   *Companies respond in a variety of ways to the pressures put upon them by their various stakeholders.*
   a. Defenders: fight any efforts to restrict or regulate their maximization of profit. They enact socially responsible programs only when forced by law to do so.
   b. Accommodators: do not fight against regulation but only change when legally required to. They tend to behave only according to the *"letter of the law."*

c. Reactors: change policies and practices when pressure from stakeholders appears to be nearing a point where it could have adverse economic effects on the organization.
d. Anticipators: believe they are obligated to their stakeholders. They take actions to protect stakeholders even when the stakeholders are not aware there is a problem.

A MANAGER'S CHALLENGE:
*Cleaning up Dirty Little Engines*

There are 30 million hand held power tools and blowers in the US, the products of a $1.5 billion per year industry. These tools have two str0ke engines which, while praised as reliable, lightweight, powerful, and inexpensive, have also been vilified as contributors to air pollution.

This case provides information on this industry. In particular, it details the emissions laws that went into effect from 1995 through 2006.

In an example of the defender strategy, CEOs of many of the leading companies in the industry complained that the new regulations would put them out of business and fought against the regulations. They changed to meet the 1995 emissions standards when they finally had to but continued to fight the 1999 standards.

Three companies decided to adopt a more proactive anticipator strategy and developed new technology to meet the coming standards. Deere even started lobbying NOT to lower the standards. The other companies stopped fighting and bought engines with the new technology from the two firms who had successfully developed and marketed it. These firms demonstrate an accommodating response.

The remaining companies finally began to implement their own R&D programs in anticipation of the need for new technology to meet the newer, more stringent standards thus adopting an accommodator strategy.

In the last ten year exhaust emissions from hand held power devices have dropped over 70%.

*Suggested Questions:*
1. Characterize each company's response strategy. Which would you have chosen? Why?
2. Why do you think the majority of companies waited so long before starting their own R&D efforts? Do you think this was a good strategy?
3. Why do you think the companies fought so hard against the 1995 standards when it was apparently so easy to adopt them?

Check it out!  http://www.redmax.com/
http://www.tanaka-usa.com/
http://www.deere.com/en_US/deerecom/usa_canada.html
http://www.briggsandstratton.com/

5. Strategic Corporate Social Responsibility
   a. It can be difficult even for those in favor of corporate social responsibility (CSR) to determine appropriate socially responsible actions to take.
   b. There are three criteria which can guide these the choice of a socially responsible strategy
      i. The "inside out approach" – look for issues that tie to the core concerns inside the company and focus your effort there.
      ii. The 'outside in approach" – look for issues outside your organization on which you can have an effect.
      iii. The "outside out approach" – look for those social issues that seem most problematic. Assess the issues you identify through the lens of the first two criteria.
   c. These three criteria resulting a three dimensional matrix that managers can use to guide their choice of social responsibility focus. (see exhibit 2.3)
      i. The z axis positions the problem in society – high or low importance
      ii. The y axis asks if the company can have an effect on the problem
      iii. The x axis asks if the problem is critical to the company.
   d. The assumption is that the company would look for a focus for their social responsibility strategy that would score high on all three criteria.
   *****The text provides two excellent examples of the application of this matrix model by Marriott Hotels. *****

## ENHANCEMENT:  Limits on Corporate Social Responsibility

*(If your students are confused by the SCSR Matrix, you might try explaining the limits of CSR using this model.)*

Even those companies who advocate Corporate Social Responsibility (CSR) recognize that there are limits to how much they can spend.  Some of these limits include:

1. Legitimacy:  It is a legitimate use of funds to support city redevelopment in a city where the company has a presence.  It would not be a legitimate use of funds to do the same in a city where the company does not have or plan to have a store or factory.

2. Costs:  Some companies are large enough that they can donate an entire library.  Others, much smaller, may only be capable of affording a book mobile.

3. Efficiency:  It may be a better use of company funds to donate them to Habitat for Humanity rather than try to build homes themselves.

MAKING ETHICAL DECISIONS
*This section is concerned with a discussion of ways to improve the ethical climate in organizations. It examines this issue from three distinct points of view:*
   1. The Manager

a. Managers can improve the ethical climate through improving their own facility with ethical reasoning.
b. The more aware managers are of the factors of moral intensity and the basic ethical reasoning systems, the more likely they are to accurately identify and address the ethical dilemmas they encounter.
c. As managers develop their skill at ethical decision making, they will be able to make more ethically consistent decisions.

2. The Organization
*The overall organizational culture can have a tremendous directive effect on workers decisions and behavior. However, there are several specific things that organizations can do to improve their ethical climate*:
   a. Codes of Ethics
      i. This is a formal written statement outlining behavior that is and is not acceptable within the organization
      ii. In the US, codes of ethics generally address three specific clusters of issues
         1. items focused on good organizational citizenship
         2. items delineating unlawful behavior that will harm the firms
         3. good customer service
      iii. Companies in different countries emphasize distinct elements in their codes of ethics which may be reflective of the countries' cultures. See Exhibit 2.7 for examples
      iv. While companies believe formal codes of ethics are the most effective way to encourage ethical behavior, research has not demonstrated a significant link between merely having a written code and improved employee conduct.
   b. Successfully Implementing Codes of Ethics
      i. Organizations are increasingly using ethics officers and ombudsmen to insure that employees are constantly aware of issues of concern.
      ii. Communication
         1. Codes of ethics need to be consistently and continuously communicated in many formats.
         2. The code should be repeated often in memos, newsletters, videos, and executive speeches.
      iii. Training
         1. Ethical training does not have to be boring. Many companies have devised fun, engaging ways in which to train employees in how to handle ethical dilemmas
            a. Motorola uses a set of approximately 80 short cases which it asks managers to analyze first individually and then in groups. The decisions of the groups are then compared to those of senior managers.
            b. Lockheed used a board game it developed in the 1990s based on the Dilbert cartoon. Managers enjoyed the training and appeared to retain the knowledge and skills.

        2.  The more managers are psychologically intrigued and involved in the training, the greater their retention of the learning points.
- iv.  Reward and Recognition
    1. It is important to reward and or recognize publicly those managers and employees who demonstrate adherence to the organization's code of ethics, particularly in situations where it is difficult to do so or when behaving in accordance with the code may cost the company money.
    2. This lets the workers know that the company is serious about the ethical behavior it requires.
- v.  Whistle Blowing
    1. A whistle blower is an employee who disclosed unethical or illegal behavior on the part of others in the organization.
    2. Whistle blowers are more likely to be dedicated, conscientious employees who feel they are being good corporate citizens by reporting concerns and wrongdoing.  They are generally not just disgruntled employees.
    3. There are six steps companies can take to encourage valid whistle blowing
        a. make sure whistle blowing procedures are clearly communicated to all employees
        b. institute reporting channels outside of the normal chain of command
        c. Investigate all claims thoroughly and consistently
        d. Protect whistle blowers who report legitimate problems
        e. use moderate financial rewards as an incentive for employees to report valid issues
        f. publicly recognize and praise valid whistle blowers
- c.  Top Management Example
    - i.  The behavior of top managers is paramount in instilling an ethical climate in an organization.
    - ii.  Top managers need to both behave ethically themselves and reward and recognize others in the organization that do so.
3. The Government – The U.S. Foreign Corrupt Practices Act (FCPA)
    - a. The law is one of the most discussed way in which the US government attempts to foster ethical behavior in international organizations.
    - b. Deals with bribes and other questionable payments
    - c. Enacted in 1977 following the disclosure that over 500 US companies had paid bribes to foreign managers and officials totaling over $300 million.
    - d. The FCPA makes it illegal for employees of US businesses to:
        - i. Foreign officials, politicians, or candidates for office
        - ii. To pay money to any person when that money may be used to corrupt the activities of officials
        - iii. Maintain detailed records of all transactions involving foreign officials
    - e. The FCPA does not cover:

     i. Payments to business executives – this remains an ethical, not a legal, decision

     ii. Facilitating Payments – payments to low-level government employees to perform their normal duties in a more expedited manner

  f. Penalties include

     i. Fines up to $1 million for the company

     ii. Fines up to $10,000 and Five years in prison for the responsible individuals

---

MANAGERIAL CHALLENGE FROM THE FRONT LINE:
*The Rest of the Story*

Anderson made the decision (not lightly!) that the company would indeed need to cut back on benefits to part-time workers.  However, Half Price Books continues to grow; and, as it grows, it remains committed to its socially responsible programs.  Many larger companies have tried to buy Anderson out, but she has not sold.

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## Closing Case: *Nicolo Pignatelli and Gulf Italia*

In this case, the students are presented with a situation in which a CEO is considering his options vis-à-vis the Italian government.  The government originally gave Pignatelli permission to build a 6 million tone oil refinery.  Pignatelli spent years and millions of dollars to build the refinery, taking care to not only meet but to exceed environmental regulations, and to change locations for the plant several times to appease locals. Now the Italian government will not allow him to run the refinery at full capacity – only at a little under 60% capacity.  At this level of production, Gulf Italia will lose money and will probably also lose the partnership of Mobil Oil.  Pignatelli could play by the rules, and apply for the new operations permits – which could take years.  He could try to get Mobil to put pressure on the Italian government.  He could pay $1 million to a person who might be able to "fix" things.  He might bribe a government official directly to get the permits.

Questions:

  1. What should Pignatelli Do?  What would you do and why?

    ▪ You might start by asking for a vote on the four options, just to see where the class stands initially.

    ▪ You could divide the students into groups based on the four options, or ask them individually to provide ethical rationale for their positions.

      ▪ The students should use the basic methods of ethical reasoning: utilitarianism, moral rights, universalism, and justice approaches to justify their decisions. You might also have them indicate which of the six factors of moral intensity entered into their decisions.

2. Pignatelli seems to be leaning in the direction of hiring a consultant, who might use part of the money for bribes. If Pignatelli does not pay the bribes directly, does this absolve him of responsibility?
    - This is a meaty question. Does Pignatelli really know what his agent will do? Does he suspect? Does it matter? If you pay someone to act for you, to act in your name, are you then ultimately responsible for their actions? Would this be a case of conspiracy to bribe? People are convicted of murder for merely asking others to murder someone for them. How is this different from asking someone to bribe another for you? This question will, most likely, result in a lively debate.
3. Bribes are illegal in Italy. Even if bribes are common practice there, does this justify paying them?
    - Students can discuss the differences between obeying the law and obeying the higher behavioral expectations of ethics. What is the overwhelming issue here? Is it just money? Is the government obeying its own laws? If so, can Pignatelli ethically do anything other than obey those same laws? If the government is acting unethically, does that make it right for Pignatelli to act unethically (and illegally) also?
4. Does Pignatelli have a responsibility to Italian citizens to build an environmentally friendly refinery above and beyond what is required by law? Is it appropriate for Gulf to spend this extra money and essentially take it away from shareholders/
    - This question should be argued in terms of the relative merits of the efficiency and the social responsibility viewpoints. The efficiency perspective would say, NO, this is not an ethical use of company funds – meet the requirements, but do not exceed them. The social responsibility perspective, on the other hand, would argue that YES, this is an ethical use of company funds. Students could also bring in the Matrix of Corporate Social Responsibility and analyze the situation in terms of its parameters: Is environmental protection a social problem? Is it something that can be affected by the company? Are the company's effects on the environment related to the critical business of the company? A yes answer to all three would indicate that this is an issue of concern for the company.
5. How would you feel if you were a lower-level employee in the company and learned that Pignatelli intended to pay bribes to get things "debottelnecked?" what would your ethical obligations be? Should you ignore the situation or confront Pignatelli? Should you inform your direct boss or go to the media?
    - This question asks students to examine the strength of their own ethical convictions to see if they would be willing to become a whistleblower. Doing so would most likely cost them their jobs – not necessarily because of the whistle blowing, but because the company would shut down. They might lose their income. Is it worth it to them to do so? This is the type of decision that can be discussed well in terms of the Six Factors of Moral Intensity. Have them look particularly at both magnitude of the consequences and concentration of effect – both of which would argue against taking this action. Also Proximity and immediacy would lead

them to not take the action – the consequences would be swift and would affect them and their family and other local workers almost immediately if the company had to shut down.

---

# TEAM EXERCISE

| | |
|---|---|
| Time Required: | 10 minutes preparation; 5-10 minutes for the role play. 20 minutes for group discussion |
| Props: | None. Although if you have not assigned the exercise to be read prior to class, you may want to bring several copies of it with you for those students who have not brought their books. |
| Group Size: | 3 group members if using this as a role play; (4-7 if using it as a group case analysis) |
| Purpose: | To explore the meaning of a "hostile work environment" |
| Notes: | This case can also be used as a group case discussion. In this usage, roles are not assigned. The student groups can meet and discuss the case. Then the entire class can discuss the various groups' answers. |

This case concerns the ethics involved in reading employees' emails. A manager has just been told by his/her boss that proprietary, sensitive material may be being leaked by one of his/her subordinates. The boss wants the manager to read all their emails and see if anyone is up to anything unethical. The company has a stated email policy stating that emails are company property, not private correspondence. However most employees are not aware of it or don't believe the company monitors their email and internet activities.

1.  What would you do? Would you take the assignment? Why or why not?

    This question sets up a debate among students who would take the assignment and those who would not. Those who would take the assignment generally point to the fact that there is a policy stating that employee emails may be scanned by the company, and that this is a legitimate request from their boss. Those against the assignment generally cite privacy concerns. Some will discuss trust issues and how this could have an adverse affect on their relationship with their subordinates.

2.  If you didn't want to take the assignment, how could you turn it down without hurting your relationship with your boss or potentially damaging your career?
    Being able to turn down the assignment would hinge on being able to convince your boss that it is either unnecessary or that it will further damage the organization through the lack of trust that will result. You cannot just say no with no reason. The chapter on Power contains a list of influence strategies. This might be a good time to introduce them. Rational Persuasion is probably going to be the most effective tactic, but the

students could try and see if they could envision methods for using the other influence strategies.

3.  Is it ethical to read employees' email that they may consider private?
    Again, there may be a perception of privacy, but privacy does not really exist.  The students could use several methods to analyze the ethics involved here.  According to the utilitarian approach, your actions would be ethics.  However, according to the Universalism approach, your actions would be unethical.  Procedural justice would be satisfied if all employees are subjected to the same review of their emails, not just a few. Organizational ethics would judge this actions correct.  The Disclosure rule would say the individuals should never have put anything into an email that they did not want to be viewed by others in the company.

4.  Is it ethical to not inform employees of what you are about to do?
    Here, again, have the students use various means of ethical reasoning to decide the issue. You might also ask them to assess the impact of the 6 factors of moral intensity.

# SUGGESTED DISCUSSION QUESTIONS

1.  How much would you change your ethical values or standards or your view of social responsibility in order to fit into a company?  What if you were sent on assignment to another country where the national standards seemed to differ both from the corporate ones and from your personal standards?  How much would you change?

    You might find it interesting to ask the students which values they would or would not be willing to ignore.  Where are their limits?  Would they be willing to overlook an organization's blatant pollution for a large paycheck?  I always offer them the example of one of the students in my MBA cohort who refused a number of lucrative positions because they would involve designing and manufacturing weapons, and he was a pacifist.  He eventually took a much lower paying job but was very happy that he had not needed to give up his deepest beliefs.

2.  Which of the basic approaches to ethical decision-making most closely matches your approach for dealing with ethical dilemmas?

    Most of my students respond with the utilitarian approach.  They tend to think in terms of costs and benefits – generally to themselves!  Try asking them for examples of situations in which they have had to make an ethical decision.  Have them approach the decision using a different approach.  Would they still have made the same decision?

3.  Is it wise for a government to try to legislate ethics through laws such as the FCPA?

This question may tap into your students' beliefs on the role of government.  If you are teaching older students, these beliefs may be well formulated, and they may have examples to explain why they are for or against government legislation of ethical issues.  With students who have not had a great deal of work experience, you might try asking them if they want the government legislating their personal values and ethics.  Which ones would it be ok for the government to make laws about?  How does this differ from the government making laws about corporate behavior?

4.  What is the ethical climate like in your school?  What is your school's policy or honor code concerning cheating?  What is your ethical responsibility if you see someone cheating?

This question actually works well as a short homework assignment – as well as a review of the cheating policy of the school!  Many, if not most, students have never read the ethical policies of their school.  You might ask them to find the statements for two or three different schools and then compare them, either in a written assignment or in a class discussion.

5.  Would you be willing to be a whistle blower?  On what type of issue would you blow the whistle?  Inflated overtime submitted on a government contract?  Sexual harassment?  What organizational and personal factors would you consider?

Here is another opportunity for a written research assignment. You might ask the students to research whistleblower cases.  What was the impetus for the action?  What happened to the whistleblower afterward?  After researching a couple of these cases, the students may have a better idea as to whether or not they would be willing to be a whistle blower and in what type of situation.

6.  Consider the following scenario:  A sales representative from a textbook publisher calls on your professor to try to get him or her to adopt a new textbook. Is it okay for the professor to accept a free lunch from a publisher's sales representative? If it is okay for a professor to accept a free lunch, what about a free game of golf?  What about a free set of golf clubs after the game?

If the students make the connection between money being spent by the company trying to woo the professor and the cost of their textbooks, this may result in quite an animated discussion.  I have found that students don't really understand why the reps are so interested in recruiting professors. They don't see textbooks as a really lucrative business. Once they do, they can become quite vocal as to the ethics of textbook publishers.

## ADDITIONAL EXERCISES

ETHICS SCENARIO SURVEY

*I use this during discussion in a large class. I use an audience response system and collect the students' answers and show them as a chart.*

| | |
|---|---|
| Time Required: | Five minutes if you just have the students answer the questions.  It can take longer if you use this as the basis for group discussion and require each group to prepare reasons for their answers.  In this situation, you may want to schedule ½ hour for the groups to meet and discuss and then to lead a general class discussion |
| Props: | One handout per student.  Alternatively you could project the questions using an overhead or computer. Lately I have been using an audience reply system to gather the numbers and display them. |
| Class size: | Any size.  This exercise will work with individuals or groups. |
| Purpose: | To encourage students to apply ethical reasoning to a typical international business problem. |
| Procedure: | Read the introduction to the students and ask them to read the situation description and answer the questions.  If you are doing this as a group exercise, provide each group with at least one copy of the situation and questions. Have the groups record their answers on the board.  Then lead a discussion as to why they chose the answers they did. You may want to instruct the students whether or not to consider the FCPA in answering the questions.  Alternatively, you may want to wait and see if they bring it up! |

In a 1991 survey of corporate ethical practices by the Conference Board, New York, senior managers were asked for their personal, not corporate, responses to ethics questions confronting Dagonet, a hypothetical diversified manufacturing firm.

Now it's your turn to decide the ethical issues.  Read the description of Dagonet's situation and make your choices.  We will then compare your decisions with the choices made by professional managers responding to the Conference Board's survey

The Situation

Dagonet is undertaking a major effort to introduce its products in Latin American markets.  The company has been asked by several potential distributors to overbill and remit the differences to their company's accounts in Switzerland and the Cayman Islands.

This practice is customary in these countries because local taxes are confiscatory and the local exchange rates make it very difficult for local distributors to achieve profitable results.

Dagonet has received similar requests in the past form U.S. and European firms and has always refused."

What would you do?

1. Should Dagonet
   A. Deny the request because what is unethical in one country cannot be ethical in another
   B. Accede to the request because it doesn't violate the local distributors' standard business practices?

2. In deciding what to do, Dagonet
   A. Is confronting ethical as well as business considerations
   B. Can resolve the issue by limiting the discussion to accepted local business practices

3. Dagonet should, with respect to ethical considerations in distributor relations,
   A. Have one policy worldwide
   B. Allow local subsidiaries to formulate policy based on regional customs and practices

ANSWERS:

| Question | Managers' Responses | |
|---|---|---|
| | A. | B. |
| 1 | 90% | 105 |
| 2 | 94% | 6% |
| 3 | 82% | 18% |

## THE STAKEHOLDER MAP (see Enhancement:  More on Stakeholders)

| | |
|---|---|
| Time Required: | One half hour or longer depending on the depth of research and thought you want the students to use. |
| Props: | Flip chart paper and pens for the students to draw their stakeholder map. |
| Class size: | Any size.  This exercise will works best in groups. |
| Purpose: | To encourage students to consider the wide array of stakeholders involved in a controversial situation. |
| Procedure: | you can provide the students with a situation to analyze or ask them to choose one.  The situation could be one at the school, in the local community, or a national or international issue. |

For example, at our university, there has been a piece of land on which students had trailers in which they lived. These had been passed from student to student over the years. The students paid absolutely minimal rent in an area where the cost of living is extremely high. Recently the university decided to rescind the students' rights to the space, planned to demolish the trailer area and build a much needed parking lot.

Have the students prepare a stakeholder map listing the primary and secondary stakeholders, there types of power and the level of that power. They should note relationships between the stakeholders that could potentially increase or decrease their power. You might also ask them to trace the interest of various stakeholder groups over time.

You can have the student groups do this as an ad hoc exercise or assign it as a longer written assignment requiring research. If you ask for a longer assignment, you might consider asking the students to suggest solutions to the problem that would satisfy as many of the stakeholders as possible. Then, in the debrief, ask them why they chose those particular stakeholders and ignored others.

*There are several case books with ethics scenarios that you can use for analysis in the class or as assignments. Also, Business Ethics magazine has a "what would you do" scenario in each issue. These can provide timely and interesting issues for the students to analyze, discuss, or debate.*

## ADDITIONAL PERSONAL DEVELOPMENT INVENTORIES

(These are from the Self-Assessment Library)

## What do I Value?

This inventory is based on Rokeach's Value Survey. It is divided into two segments. The first, terminal values, are those end states or life outcomes that the individual desires. The second, instrumental values, represents the behavior that we consider acceptable in attempting to achieve our terminal values. While this is intended to reveal individual values, I find it helpful to talk to the students about individual/organizational fit. I ask for volunteers to share their highest and lowest rated terminal and instrumental values. The students always surprise me with their choices – they are so different from my own! They are surprised at how different they are from each other. We then have a discussion concerning how happy or unhappy they would be if an organization's values matched or contradicted their own.

A second method for using this instrument is to ask the students to rank their culture's values. If you have some diversity in your students, you can then compare their answers. Students from various cultures can elaborate on how the values are reflected in what is considered acceptable behavior in their culture. You could then ask them to try to infer

the underlying assumptions held in their culture, or in other students' cultures, from the espoused values.  This can provide a personal link to the concept of the three levels of culture.

## How Sensitive am I to Equity Differences?

This instrument taps the students' equity sensitivity, their fairness in a normal work situation. The results can provide your students with insights into how they may in situations where they feel they see as unfair.  The results divide the students into the following three groups, as described in the instrument:

1. Benevolents: Individuals who prefer their outcome/input ratios to be less than the comparison others. These are people who don't mind being under-rewarded.

2. Equity Sensitives: Individuals who prefer outcome/input ratios to be equal. These people are concerned with obtaining rewards that they perceive as far relative to what others are receiving.

3. Entitleds: Individuals who prefer their outcome/input ratios exceed those of the comparison others. These people aren't bothered by inequities and actually prefer situations where they perceive themselves as over-rewarded.

## How do My Ethics Rate?

This instrument offers students a chance to compare their scores on questions about ethics to those of 243 management students.

## SUGGESTED ADDITIONAL READINGS

Business Ethics Quarterly celebrated its 20th anniversary with their October 2010 issue (Volume 20, Issue 4).  It includes several interesting articles including
- BEQ At Twenty: The State Of The Journal, The State Of The Academic Field, And The State Of Business Ethics; Some Reflections.
- Business Ethics: The Long And Winding Road
- Business Ethics: No Longer An Endangered Species But Still Threatened
- Ethics In Business Requires Moral Maturity.

Ethics and Network Organizations. By: Phillips, Robert A. Business Ethics Quarterly, Jul2010, Vol. 20 Issue 3, p533-543, 11p, 2 Diagrams; Abstract: As value chains become longer with increases in outsourcing and subcontracting, the challenges of fixing responsibility become more difficult. Using concepts from the literature on social networks, this paper considers issues of diffusion of responsibility and plausible deniability in such relationships. Specifically, this paper isolates three sources of denial of -- or defense against -- attributions of responsibility: connection, control and knowledge. It goes on to consider the effects on network density and actor centrality as third parties (tertius illuminans) alter the structure of these networks. Finally, preliminary conclusions are considered including suggestions for addressing these new

challenges as well as the potential for conceptual cross-fertilization between network analysis and organizational ethics

<u>Organizational Ethics, Individual Ethics, and Ethical Intentions in International Decision-Making.</u> By: Elango, B.; Paul, Karen; Kundu, Sumit; Paudel, Shishir. Journal of Business Ethics, Dec2010, Vol. 97 Issue 4, p543-561, 19p, 1 Diagram, 5 Charts; Abstract: This study explores the impact of both individual ethics (IE) and organizational ethics (OE) on ethical intention (EI). Ethical intention, or the individual's intention to engage in ethical behavior, is useful as a dependent variable because it relates to behavior which can be an expression of values, but also is influenced by organizational and societal variables. The focus is on EI in international business decision-making, since the international context provides great latitude in making ethical decisions. Results demonstrate that both IE and OE influence EI. Ethical congruence is also discussed as a positive influence. Younger managers are more influenced by OE than older managers. The findings call for creating governance mechanisms to enhance ethical congruence, thereby increasing the likelihood of managers making ethical choices in organizational decision-making.

<u>The Mandatory Corporate Social Responsibility in Indonesia: Problems and Implications.</u> By: Waagstein, Patricia. Journal of Business Ethics, Feb2011, Vol. 98 Issue 3, p455-466, 12p; Abstract: The adoption of the 2007 Indonesian Law No. 40 has created significant debate over the nature of Corporate Social Responsibility (CSR), namely, whether it is voluntary or mandatory. On the one hand, the adoption of such a law represents a legal recognition of the existence of CSR, and this clarification on the legal nature of a concept is necessary for understanding the obligation and responsibility. On the other hand, it has created much confusion surrounding its substance and procedures. This article tries to analyze the development and consequences of CSR under 2007 Indonesian Law No. 40, through the discussion of mandatory versus voluntary dichotomy. It is argued in this article that the mandatory nature of CSR is legitimate and therefore encouraged; however, in practice, this is problematic, as it not only requires a precise concept of interpretation of CSR and identification of the duty bearer and beneficiaries, but also an effective implementation mechanism and a means of verifying the impact.

<u>The Pragmatics of Care in Sustainable Global Enterprise</u>. By: Simola, Sheldene. Journal of Business Ethics, Sep2007, Vol. 74 Issue 2, p131-147,
Abstract: Recent conceptualizations of sustainable global development have reflected societal concerns not only with environmental stewardship, but also with social amelioration. However, the tripartite goals of corporate profitability, environmental protection, and social responsiveness are unlikely to be achieved through conventional models of globalization. The emergent approach known as sustainable global enterprise provides a promising strategic alternate, but requires the development of "native capability" [Hart, S. L.: 2005, Capitalism at the Crossroads: The Unlimited Business Opportunities In Solving the World's Most Difficult Problems. (Pearson Education, Inc., Publishing as Wharton School Publishing, Upper Saddle River, NJ)] that comprises specific relational competencies not typically required by traditional transnational models. This article demonstrates the usefulness of an ethic of care for enhancing understanding of the competencies comprising native capability, and, provides practical insights from a care approach on the development of those skills.

Taboos in Corporate Social Responsibility Discourse. By: Kallio, Tomi. Journal of Business Ethics, Sep2007, Vol. 74 Issue 2, p165-175,
 Abstract: Corporations today have been engineered by CEOs and other business advocates to look increasingly green and responsible. However, alarming cases such as Enron, Parmalat and Worldcom bear witness that a belief in corporate goodness is still nothing other than naïve. Although many scholars seemingly recognize this, they still avoid touching on the most sensitive and problematic issues, the taboos. As a consequence, discussion of important though problematic topics is often stifled. The article identifies three 'grand' taboos of CSR discourse and explicitly raises them for discussion. They are the taboos of amoral business, continuous economic growth, and the political nature of CSR. It is suggested that CSR can only be as advanced as its taboos. The critical potential of the field remains underdeveloped as a consequence of the taboos, and in many cases the CSR discourse merely produces alluring but empty rhetoric about sustainability and responsible business.

IABC works with ISO to develop standards for social responsibility. Communication World, Jul/Aug2007, Vol. 24 Issue 4, p9.
 Abstract: The article reports that the International Association of Business Communicators is working with the International Organization for Standardization to develop a future ISO 26000 standard that will provide organizations with guidance on implementing social responsibility. The project will be run by Michelle Bernhart, principal writer at CDM. A committee run by Bernhart is providing recommendations on a section of an ISO guidance document that focuses on communication about social responsibility.

Why Teaching of Ethics Continues to Be Lacking. Wall Street Journal - Eastern Edition, 6/19/2007, Vol. 249 Issue 142, pB7
Abstract: An interview with Craig Smith, senior fellow in marketing and ethics at London Business School, about the lack of ethics teaching at business schools is presented. He says that ethics should be integrated in every subject covered in the business-school curriculum. He rates as poor the performance of business schools in teaching corporate social responsibility.

# MODULAR APPROACH TO CHAPTER CONTENTS

## Three 50 Minute Sessions

*Session 1*
- Start with a general discussion of ethics: where they come from, why they are important, personal vs. organizational ethics, some various ethical situations the students have found themselves in and how they were resolved.
- Discuss the basic approaches to ethical reasoning and the six factors of moral intensity.

*Session 2:*
- Discuss how companies can improve the ethical climate in their organizations
- Have the students take the Dagonet survey. Discuss their results along with the results of the "How do My Ethics Rate?" personal inventory.

- Discuss Corporate Social Responsibility and Stakeholder Theory
- Either develop a Stakeholder Map as a full class activity or form the students into groups and have them develop a stakeholder map.

*Session 3:*
- Lead a class discussion of the closing class. This case involves almost all of the concepts covered in the chapter and challenges the students to use them on a very compelling situation, a situation similar to those faced by many managers.

## Two 80 minute sessions

### Session 1
Cover the text material as outlined above

### Session 2
Utilize the managerial challenges and cases to have the students practice their ethical reasoning.

## Case Based Class:
- Start with a discussion of the personal inventories – "What do I Value?" "How do my Ethics Rate" and the Dagonet Survey exercise to lead the class into a basic discussion of what ethics are, where they come from, how important they are, etc. Use the Opening Real Manager to introduce the idea of responsibility to various stakeholders.
- Next use the Nike challenge to introduce and discuss the six factors of moral intensity.
- Use Cleaning Up Dirty Little Engines and the Starbuck's Cup challenges to examine the concepts of Corporate Social Responsibility and strategic response.
- Finish with the Nicolo Pignatelli and Gulf Italia closing case to tie it all together!