

SOLUTIONS MANUAL



THE FUTURE OF

Business

THE ESSENTIALS



3e

GITMAN &
McDANIEL

CHAPTER TWO

Making Ethical Decisions and Managing a Socially Responsible Business

CHAPTER SUMMARY

Ethics is a set of moral standards for judging whether something is right or wrong. A discussion of ethics begins with recognizing unethical business activities, followed by what do you once you realize an action is unethical. Organizations reduce the potential for unethical conduct through a number of methods. One of the most common ways companies raise employee ethical awareness is through establishing a code of ethics. Social responsibility, on the other hand, is the concern of businesses for the welfare of society as a whole. Businesses meet their social responsibilities to various stakeholders – the general public, consumers, employees, and stockholders – in various ways. Today, among the global and domestic trends in ethics and social responsibility, corporate philanthropy is shifting away from simply giving to any needy group and is focused instead on strategic giving, which is based on a firm's mission and goals. Another trend is toward a new social contract between employer and employee. As the world increasingly becomes a global community, multinational corporations are expected to assume a global set of ethics and social responsibility.

LEARNING GOALS

➤ **1. What philosophies and concepts shape personal ethical standards?**

Ethics is a set of moral standards for judging whether something is right or wrong. A utilitarianism approach to setting personal ethical standards focuses on the consequences of an action taken by a person or organization. According to this approach, people should act so as to generate the greatest good for the greatest number. Every human is entitled to certain rights such as freedom and the pursuit of happiness. Another approach to ethical decision making is justice, or what is fair according to accepted standards.

➤ **2. How can organizations encourage ethical business behavior?**

Top management must shape the ethical culture of the organization. They should lead by example, offer ethics-training programs, and establish a formal code of ethics.

➤ **3. What is social responsibility?**

Social responsibility is the concern of businesses for the welfare of society as a whole. It consists of obligations beyond just making a profit. Social responsibility also goes beyond what is required by law or union contract. Companies may engage in illegal and irresponsible behavior, irresponsible but legal behavior, or legal and responsible behavior. The vast majority of organizations act legally and try to be socially responsible.

➤ **4. How do businesses meet their social responsibilities to various stakeholders?**

Stakeholders are individuals or groups to whom business has a responsibility. Businesses are responsible to employees. They should provide a clean, safe working environment. Organizations can build employees' self-worth through empowerment programs. Businesses also have a responsibility to customers to provide good, safe products and services. Organizations are responsible to the general public to be good corporate citizens. Firms must help protect the environment and provide a good place to work. Companies also engage in corporate philanthropy, which includes contributing cash, donating goods and services, and supporting volunteer efforts of employees. Finally, companies are responsible to investors. They should earn a reasonable profit for the owners.

➤ **5. What are the trends in ethics and social responsibility?**

Today, corporate philanthropy is shifting away from simply giving to any needy group and is focusing instead on strategic giving, in which the philanthropy relates more closely to the corporate mission or goals and targets donations to areas where the firm operates. Corporate philanthropy is coming under increasing attacks from special-interest groups, however.

A second trend is toward a new social contract between employer and employee. Instead of the employer having the sole responsibility for maintaining jobs, now the employee must assume part of the burden and find ways to add value to the organization.

As the world increasingly becomes a global community, multinational corporations are now expected to assume a global set of ethics and responsibility. Global companies must understand local customs. They should also involve local stakeholders in decision making. Multinationals must also make certain that their suppliers are not engaged in human rights violations.

APPENDIX

➤ **6. How does the legal system govern business transactions and settle business disputes?**

Laws are the rules governing a society's conduct that are created and enforced by a controlling authority. The U.S. court system governs the legal system and includes both federal and state courts, each organized into three levels. The courts settle disputes by applying and interpreting laws. Most cases start in trial courts. Decisions can be appealed to appellate courts. The U.S. Supreme Court is the nation's highest court and the court of final appeal. To avoid the high costs of going to court, many firms now use private arbitration or mediation as alternatives to litigation.

➤ **7. What are the required elements of a valid contract; and what are the key types of business law?**

A contract is an agreement between two or more parties that meets five requirements: mutual assent, capacity, consideration, legal purpose, and legal form. If one party breaches the contract terms, the remedies are damages, specific performance, or restitution. Tort law settles disputes involving civil acts that harm people or their property. Torts include physical injury, mental anguish, and defamation. Product-liability law governs the responsibility of manufacturers and sellers for product defects. Bankruptcy law gives businesses or individuals who cannot meet their financial obligations a way to be relieved of their debts. Some laws are designed to keep the marketplace free from influences that would restrict competition such as price fixing and deceptive advertising. Laws protecting consumer rights are another important area of government control.

➤ **8. What are the most common taxes paid by businesses?**

Income taxes are based on the income received by businesses and individuals. Congress determines the income taxes that are to be paid to the federal government. In addition to income taxes, individuals and businesses also pay property taxes (assessed on real and personal property), payroll taxes (the employer's share of Social Security taxes and federal and state unemployment taxes), sales taxes (levied on goods), and excise taxes (levied against specific products such as gasoline, alcoholic beverages, and tobacco).

PowerPoint slide: 2-1, 2-2, 2-3

LECTURE OUTLINE

I. Understanding Business Ethics (p. 72) > Learning Goal 1

PowerPoint slide: 2-4, 2-5

Ethics is a set of moral standards for judging whether something is right or wrong; individual business ethics are shaped by personal choices and the environment in which we live and work.



Can ethics be taught? Why or why not?

The issue is an old one. Almost 2500 years ago, the philosopher Socrates debated this question. Socrates' position was clear: Ethics consists of knowing what we ought to do, and such knowledge can be taught.

Many factors stimulate a person's growth through the levels of moral development. A person's ability to deal with moral issues is not formed all at once. Just as there are stages of growth in physical development, the ability to think morally also develops in stages.

One of the most crucial factors in developing these stages is education. Research has shown that individuals took courses in ethics and these courses challenged them to look at issues from a universal point of view, they tended to move upward through the levels; thus indicating that ethics can be taught

A. Recognizing Unethical Business Activity (p. 72)

PowerPoint slide: 2-6

According to researchers for Brigham Young University, unethical business activities can be grouped into one of the following categories.

- 1. Taking things that don't belong to you.**
- 2. Saying things you know are not true.**
- 3. Giving or allowing false impressions.**
- 4. Buying influence or engaging in a conflict of interest.**
- 5. Hiding or divulging information.**
- 6. Taking unfair advantage.**
- 7. Committing improper personal behavior.**
- 8. Abusing another person.**
- 9. Permitting organizational abuse.**
- 10. Violating rules.**
- 11. Condoning unethical actions.**

Lecture Tidbit: According to the 2005 *National Business Ethics Survey*, 52% of employees observe one or more specific acts of misconduct each day. Forty-five percent don't report the behavior due to the belief that no corrective action will be taken or information will not be kept confidential

After recognizing that a situation is unethical, the next question is what you do about it. The action a person takes is based on several factors, such as that person's ethical philosophy and the environment in which the person lives and works.

PowerPoint slide: 2-7

B. Justice—The Question of Fairness (p. 73)

Justice is what is considered fair according to the prevailing standards of society; in the 20th century an equitable distribution of the burdens and rewards that society has to offer.

C. Utilitarianism—Seeking the Best for the Majority (p. 74)

Utilitarianism is the philosophy that focuses on the consequences of an action to determine whether it is right or wrong; this philosophy holds that an action that affects the majority adversely is morally wrong.

D. Following Our Obligations and Duties (p. 74)

The philosophy that says people should meet their obligations and duties when analyzing an ethical dilemma is called **deontology**. This means that a person will follow his or her obligations to another individual or society because upholding one's duty is what is considered ethically correct.

E. Individual Rights (p. 74)

The term **human rights** implies that certain rights – to life, to freedom, to the pursuit of happiness – are conveyed at birth and cannot be arbitrarily taken away; certain rights are guaranteed by the government and its laws, and these are considered **legal rights**.

Lecture Tidbit: A **whistleblower** is a person who reports illegal activity occurring within a firm to the press, government, or other parties outside the firm. Three of the most famous whistleblowers were recognized on the cover of *Time* magazine in 2002 as "Persons of the Year". They were Sherron Watkins of Enron, Cynthia Rowley of the FBI, and Coleen Rowley of WoldCom. These women each reported fraud within their organizations even though they knew they were risking their jobs, their reputation, and even their lives. Jeffrey Wigand is another famous whistleblower who exposed corporate deceit in the tobacco industry. A movie was later made about him entitled, *The Insider*.



What action within your company would cause you to be a whistleblower? Do you think you could handle the pressure that would follow your actions?

Students' responses will vary. It's important to point out that there are laws to shield employees from retaliation for reporting illegal acts of employers. An employer can't lawfully retaliate in any way, such as discharging, demoting, suspending or harassing the whistleblower.

II. How Organizations Encourage Ethical Conduct (p. 75)

> **Learning Goal 2**

PowerPoint slide: 2-8, 2-9, 2-10, 2-11, 2-12, 2-13

People choose between right and wrong based on their personal code of ethics. They are also influenced by the ethical environment created by their employers. The first step in making a good ethical decision is to recognize unethical business activities when they occur.

A. Leading by Example (p. 75)

Employees often follow the examples set by their managers. That is, leaders and managers establish patterns of behavior that determine what's acceptable and what's not within the organization.

B. Offering Ethics-Training Programs (p. 75)

Organizations also provide formal training to develop an awareness of questionable business activities and practice appropriate responses; about 35 percent of all American companies have some type of ethics training programs.

C. Establishing a Formal Code of Ethics (p. 76)

Most large companies and thousands of smaller ones have created, printed, and distributed codes of ethics. A **code of ethics** provides employees with the knowledge of what their firm expects in terms of their responsibilities and behavior toward fellow employees, customers, and suppliers.

D. Making the Right Decision (p. 76)

In many situations there are no simple right or wrong answers. There are some self-tests to help you make the right ethical decision. First, ask yourself

if the action is legal. Next, ask yourself if the action violates your company's code of ethics. Third, ask yourself if the action meets your personal ethical philosophy. If the answer is "yes," then your decision must still pass two important tests.

1. **The Feeling Test.** Ask yourself how the action makes you feel.
2. **Front Page of the Newspaper Test.** The final test is ask how a critical reporter would report your decision in a front-page story.

III. **Managing a Socially Responsible Business (p. 78)**

> **Learning Goal 3**

PowerPoint slide: 2-14, 2-15

Social responsibility is the concern of businesses for the welfare of society as a whole. It consists of obligations beyond those required by law or union contract.

Lecture Tidbit: Socially Responsible Investing (SRI) is an investment strategy that integrates social or environmental criteria into financial analysis. With approximately \$2.29 trillion in assets in the U.S. today, SRI investors identify companies with better long-term financial performance through the analysis of social and environmental factors. They encourage improved corporate social and environmental performance through this active investment strategy.

A. Understanding Social Responsibility (p. 78)

PowerPoint slide: 2-16, 2-17, 2-18

Peter Drucker, a management expert, said that we should look first at what an organization does to society and second at what it can do for society. This idea suggests that social responsibility has two basic dimensions: legality and responsibility.

1. **Illegal and Irresponsible Behavior.** The idea of social responsibility is so widespread today that it is hard to conceive of a company continually acting in illegal and irresponsible ways. Nevertheless, such actions do sometimes occur.
2. **Irresponsible but Legal Behavior.** Sometimes companies act irresponsibly, yet their actions are legal; controversial advertising campaigns include Budweiser's ad featuring talking frogs and lizards and the cuddly Spuds McKenzie, as well as Joe Camel.
3. **Legal and Responsible Behavior.** The vast majority of business activities fall into the category of behavior that is both legal and responsible.

IV. Responsibilities to Stakeholders (p. 80) > **Learning Goal 4**

PowerPoint slide: 2-19, 2-20, 2-21

Stakeholders are the individuals or groups to whom a business has a responsibility; the stakeholders of a business are its employees, customers, the general public, and investors.

A. Responsibility to Employees (p. 80)

Responsibility toward employees includes: providing jobs to employees, providing a clean and safe working environment, providing job security, and empowering employees to make decisions.

B. Responsibility to Customers (p. 81)

Satisfied customers lead to long-term relationships and a long-term stream of revenue and profits for the firm; **consumer fraud** is the practice of deceiving customers by such means as failing to honor warranties or other promises or selling goods or services that do not meet advertising claims.

Lecture Tidbit: “Always do what’s right. This will gratify some people and astonish the rest.”
Mark Twain

PowerPoint slide: 2-22, 2-23, 2-24

C. Responsibility to Society (p. 81)

A business must be responsible to society by providing the community with jobs, goods, and services. It also pays taxes that go to support schools, hospitals, and better roads.

1. **Environmental Protection.** To slow the erosion of the world’s resources, many companies are becoming more environmentally responsible.
2. **Corporate Philanthropy.** **Corporate philanthropy** is the practice of charitable giving by corporations, including the contributing of cash, donating equipment and products, and supporting the volunteer efforts of company employees.



Give an example of social responsibility in your community that benefits the company and your community. Students may respond with a variety of projects such as the Habitat to Humanity, Ronald McDonald House, Special Olympics, United Way, public television programming, partnerships with schools, donations to colleges, and/or other company-sponsored events.

D. Responsibilities to Investors (p. 84)

Some investors are limiting their investments to securities that fit within the beliefs about ethical and social responsibility; this is called **social investing**.

V. Trends in Ethics and Social Responsibility (p. 85)

> Learning Goal 5

PowerPoint slide: 2-25, 2-26, 2-27, 2-28

Three trends related to ethics and social responsibility for the new millennium are changes in corporate philanthropy, a new social contract between employees and employers, and the growth of global ethics and social responsibility.

A. Corporate Philanthropy (p. 85)

Corporate philanthropy has typically involved seeking out needy groups and then giving them money or company products. Today, the focus is shifting to **strategic giving**, which ties philanthropy more closely to the corporate mission or goals and targets donations to regions where a company operates.

B. A Social Contract between Employer and Employee (p. 86)

The **new social contract** goes like this: “There will never be job security. You will be employed by us as long as you add value to the organization, and you are continuously responsible for finding ways to add value. In return, you have the right to demand interesting and important work, the freedom and resources to perform it well, pay that reflects your contribution, and the experience and training needed to be employed here or elsewhere.”

VI. Global Ethics and Social Responsibility (p. 86)

When American businesses expand into global markets, they must take their corporate codes of ethics and policies on social responsibility with them. They must respect local practices and customs as well so that there is harmony between the organization’s staff and the host population.

Lecture Tidbit: What countries around the world are seen as the least corrupt? Each year Transparency International, (the only international non-governmental organization devoted to combating corruption) conducts a worldwide survey ranking countries on their Corruption Perception Index (CPI). CPI is a composite index, drawing on corruption-related data in surveys carried out by a variety of reputable institutions. It reflects the views of business people and analysts from around the world, including locals in the countries evaluated. Here are the 2006 results of the ten *least* and *most* corrupt countries:

Least Corrupt	Most Corrupt
Iceland	Chad
Finland	Bangladesh
New Zealand	Turkmenistan
Denmark	Myanmar
Singapore	Haiti
Sweden	Nigeria
Switzerland	Guinea
Norway	Cote d'Ivoire
Australia	Angola
Austria	Sudan

Source: Transparency International Corruptions Perceptions Index 2006

APPENDIX

I. **Understanding the Legal and Tax Environment (p. 93) >** **Learning Goal 6**

The smooth function of society depends on the law, which protects the rights of people and businesses. **Laws** are rules governing a society's conduct that are created and enforced by a controlling authority.

II. **The Main Sources of Law (p. 93)**

The legal system in the United States are the result of a long and continuing process and consists of many types of law.

Common law is the body of unwritten law that has evolved out of judicial decisions rather than being enacted by legislatures. **Statutory law** is written law enacted by a legislature (local, state, or federal). **Administrative law** refers to rules, regulations, and orders passed by boards, commissions, and agencies of government (local, state, and federal).

Lecture Tidbit: Common law derives from the doctrine of *state decisis* (Latin for “to stand by decisions”). *State decisis* means judges’ decisions establish a precedent for deciding future cases of a similar nature. In other words, common law is based on what has gone before.

III. Business Law (p. 94)

Business law is the body of law that governs commercial dealings. The Uniform Commercial Code (UCC) sets forth the rules that apply to commercial transactions between businesses and between individuals and businesses.

IV. The Court System (p. 94)

The judiciary branch of government is responsible for settling disputes by applying and interpreting points of law. The U.S. court system includes both state and federal courts, each organized into three levels.

A. Trial Courts (p. 94)

Trial courts are the lowest level of courts, where most cases begin. Trial courts are also called courts of general jurisdiction.

B. Appellate Courts (p. 95)

Appellate courts are the courts of appeals for decisions made by the trial courts. Their purpose is to review decisions of the lower courts and affirm, reverse, or modify the rulings.

C. The Supreme Court (p. 95)

The Supreme Court is the highest court in the nation, and is the only court established by the U.S. Constitution. Its main function is to review decisions by the U.S. circuit courts of appeals.

D. Administrative Agencies (p. 95)

Administrative agencies exist at federal, state, and local levels and have limited judicial powers to regulate their special areas.

V. Nonjudicial Methods of Settling Disputes (p. 95)

Nonjudicial methods of settling disputes include arbitration and mediation. With arbitration, parties agree to present their case to an impartial third party and are required to accept the arbitrator's decision. Mediation is similar, but the parties are not bound by the mediator's decision.

VI. Contract Law (p. 96) > Learning Goal 7

A **contract** is an agreement that sets forth the relationship between parties regarding the performance of a specified action. The contract creates a legal obligation and is enforceable in a court of law.

A contract can be an **express contract**, which specifies the terms of the agreement in either written or spoken words; or an **implied contract**, which depends on the acts and conduct of the parties to show agreement.

A. Contract Requirements (p. 96)

For a contract to be legally enforceable, all of the following elements must be present:

- **Mutual assent.** Voluntary agreement by both parties to the terms of the contract.
- **Capacity.** Legal ability of a party to enter into contracts.
- **Consideration.** Exchange of some legal value or benefit between the parties.
- **Legal purpose.** Absence of illegality.
- **Legal form.** Oral or written form, as required.

B. Breach of Contract (p. 96)

A **breach of contract** occurs when one party to a contract fails to fulfill the terms of the agreement without a legal excuse.

VII. Warranties (p. 98)

Express warranties are specific statements of fact or promises about a product by the seller. Implied warranties are neither written nor oral. These guarantees are imposed on sales transactions by statute or court decision.

VIII. Patents, Copyrights, and Trademarks (p. 98)

A **patent** gives an inventor the exclusive right to manufacture, use, and sell an invention for 17 years. The U.S. Patent Office grants patents for ideas that meet its requirements of being new, unique, and useful.

The government also grants copyrights. A **copyright** is an exclusive right, shown by the symbol ©, given to a writer, artist, composer, or playwright to use, produce, and sell her or his creation. The copyright is issued for the life of the creator plus 50 years after the creator's death.



After copyright-infringement lawsuits from music companies shut down Napster's free music service, the company filed for Chapter 11 bankruptcy. In 2004, Napster Inc. launched Napster-to-Go; a service that allows users to download an unlimited number of songs for \$14.99 a month.

How do you feel about downloading copyrighted music for free from the Internet? What about movies and games?

A **trademark**, identified as ®, is a design, name, or other distinctive mark that a manufacturer uses to identify its goods in the marketplace. A **servicemark** is a symbol, name, or design that identifies a service rather than a tangible object.

IX. Tort Law (p. 99)

A **tort** is a civil, or private, act that harms other people or their property. Torts are part of common law. A tort is generally not a crime. **Crimes** are violations of public law punishable by the state or country in the criminal courts. **Negligence** occurs when reasonable care is not taken for the safety of others.

X. Product-Liability Law (p. 99)

Product liability refers to manufacturers' and sellers' responsibility for defects in the products they make and sell. An important concept in product-liability law is **strict liability**. A manufacturer or seller is liable for any personal injury or property damage caused by defective products or packaging even if all possible care was used to prevent such defects.

XI. Bankruptcy Law (p. 100)

Bankruptcy is the legal procedure by which individuals or businesses that cannot meet their financial obligations are relieved of their debts. Bankruptcy can be either voluntary or involuntary. Two types of bankruptcy proceedings are available to businesses: *Chapter 7* (liquidation) and *Chapter 11* (reorganization).

The Bankruptcy Abuse Prevention and Consumer Protection Act (October, 2005) makes it more difficult to avoid meeting financial obligations.

Lecture Tidbit: *Largest U.S. Bankruptcies Since 2000*

WorldCom, Inc. in 2002, \$103.9 Billion
Enron Corp, in 2001, \$63.4 billion
Conseco, Inc., in 2002, \$61.4 billion
Global Crossing Ltd. In 2002, \$30.2 billion
Pacific Gas and Electric Co., 2002, \$29.8 billion
UAL Corp, 2002, \$25.2 billion
Adelphia Communications, 2002, \$21.5 billion
Mirant Corporation, 2003, \$19.4 billion

Source: <http://www.bankruptcylawfirms.com/Largest-Bankruptcies.cfm>



A number of Chapter 11 corporate bankruptcies have been filed in recent years. Large companies in banking, energy, and technology dominate the list of the largest U.D. bankruptcies. Several of these companies were involved in corporate scandals. What does that tell you about financial stability of even large corporations?

XII. Laws to Promote Fair Competition (p. 101)

Antitrust regulation laws prevent companies from entering into agreements to control trade through a monopoly.

The first act regulating competition was the **Sherman Antitrust Act**, passed in 1890, which prevented large companies from dominating an industry, making it more difficult for small firms to compete. This act banned monopolies and contracts, mergers, or conspiracies in restraint of trade.

The **Clayton Act** of 1914 added more to the provisions of the Sherman Antitrust Act. It outlawed the following:

- **Price discrimination.** Offering a customer discounts that are not offered to all other purchasers buying on similar terms.
- **Exclusive dealing.** Refusing to let the buyer purchase a competitor's products for resale.
- **Tying contracts.** Requiring buyers to purchase merchandise they may not want in order to get the products they do want.
- **Purchase of stock in competing corporations so as to lessen competition.**

The **Federal Trade Commission Act** of 1914 created the Federal Trade Commission (FTC) and also bans unfair trade practices

A. Regulation of Advertising and Pricing (p. 101)

A number of laws directly affect the promotion and pricing of products. The **Wheeler-Lea Act** of 1938 amended the Federal Trade Commission Act and gave the FTC authority to regulate advertising. The FTC monitors companies' advertisements for false or misleading claims.

The **Robinson-Patman Act** tightened the Clayton Act's prohibitions against price discrimination.

B. Consumer Protection Laws (p. 102)

Consumerism is a social movement that seeks to increase the rights and powers of buyers vis-à-vis sellers. Many laws have been passed to protect consumer rights (See Exhibit 3A.2).

C. Deregulation of Industries (p. 102)

Deregulation is the removal of rules and regulations governing business competition. Deregulation has drastically changed some once-regulated industries (transportation, telecommunications, and financial services) and created many new competitors.

D. Regulation of the Internet (p. 104)

Although over 200 million Americans are signing onto the Web regularly, the majority of electronic commerce remains business-to-business transactions at this time. Piracy of music is a major problem. Legislators are concerned about regulation of telecommunications services and its resulting revenue from services such as SKYPE and VOIP.

XIII. Taxation of Business (p. 104) > Learning Goal 8

Taxes are assessed by all levels of government on both business and individuals, and they are used for the services provided by government. The average American family pays about 36 percent of its income for taxes, 28 percent to the federal government and 9 percent to state and local government.

A. Income Taxes (p. 104)

Income taxes are taxes that are based on the income received by businesses and individuals. These taxes are *progressive*, meaning that rates increase as income increases.

B. Other Types of Taxes (p. 104)

Besides income taxes, individuals and businesses play a number of other taxes. Four main types are property taxes, payroll taxes, sales taxes, and excise taxes.

Property taxes are assessed on real and personal property, based on the assessed value of the property. Any business that has employees and meets a payroll must pay **payroll taxes**, the employer's share of Social Security taxes and federal and state unemployment taxes. These taxes must be paid on wages, salaries, and commissions. **Sales taxes** are levied on goods when they are sold and are a percentage of the sales price. These taxes are imposed by states, counties, and cities. **Excise taxes** are placed on specific items; such as gasoline, alcoholic beverages, cigarettes, airline tickets, cars, and guns.

Lecture Tidbit: Alaska, Delaware, Montana, New Hampshire, and Oregon are the five states that currently do not impose general sales taxes at the state level. However, numerous boroughs and cities in Alaska have their own local sales taxes. In addition, the other four states impose sales-type taxes on specific transactions, such as lodging accommodations.

PREPARING FOR TOMORROW'S WORKPLACE

Student responses will vary.

Ethics Activity

It would seem that the teen's parents are jumping on the same bandwagon as a woman who claimed to have burned herself with McDonald's coffee several years ago and filed suit against the chain—only to win an award of millions of dollars. Large corporations are frequent targets of frivolous lawsuits by individuals who see this as a way to get rich quick.

There are also many unscrupulous lawyers who not only encourage these suits but take them on a contingency basis so that the plaintiff has nothing to lose and they both have everything to gain. In fact the contingency system has been blamed for these types of lawsuits finding their way to court at all.

On the other hand, even lawyers with unblemished reputations may find they can convince themselves that a specific case has merit when the potential financial reward is so huge. All it takes is a lawyer willing to work on contingency, and individuals willing to see a suit through to its end, to cost companies a lot of money. And what most people don't realize is that those costs are passed onto us—the consumer.

WORKING THE NET

Student responses will vary.

CREATIVE THINKING CASE: Timbuk2 Gets the Message

- 1. Mark Dwight faced considerable resistance from existing managers when he assumed control of Timbuk2 and wanted to move the production of new products overseas. He has asked for your help in preparing a presentation to win their support. Summarize the arguments in favor of off-shore production.**

Timbuk2's goal is to remain competitive in the marketplace, while also developing high-quality new products. Good business sense dictates that Timbuk2 investigate alternative manufacturing strategies in order to provide the proper price-performance to their customers.

- 2. Now list the arguments against using foreign manufacturers and develop answers to help Dwight counter charges that it is unethical to take jobs outside the United States.**

Without careful monitoring of offshore facilities, the Timbuk2's reputation is at risk. In addition, off-shoring to China will result in loss of American jobs.

First, Timbuk2 researched and screened its Chinese manufacturing facilities carefully. They also visit their China factory on a regular basis every 4 to 8 weeks to ensure superior quality standards and working conditions. As far as the loss of American jobs, Timbuk2 has resisted the economic pressures to close our factory and move everything to low-cost manufacturing centers outside the United States. Basically, they are **saving** U.S. jobs rather than closing the entire plant. In fact, the new laptop bags made in China are receiving rave reviews, and the additional business is allowing Timbuk2 to hire more people in all departments at the San Francisco headquarters-creating even more jobs locally, and paying even more taxes to San Francisco.

- 3. How did Dwight's decision to manufacture new products in China support the company's desire to be a good corporate citizen for San Francisco?**

As stated above, Timbuk2 is hiring more people locally and paying more taxes as a result of added sales. The company is growing because of their new product line, which they are able to produce competitively.

VIDEO CASE: Fair Trade Sweetens the Coffee

Running time: 10:58

Concepts Illustrated in the Video

- Code of ethics
- Ethics
- Post-conventional ethics
- Principle of rights
- Stakeholders
- Utilitarianism

Teaching Objectives for the Case

- Explore how ethics can (should) be as essential part of mission, strategy, and operations for a business.
- Orient students to how a business can establish an ethical basis for relationships with customers.
- Consider how ethical standards may vary across businesses.
- Stimulate students to think about their own ethical standards.

1. What are the key components of Equal Exchange’s fair trade agreement with coffee growers?

Fair Exchange makes credit available to farmers. Up to 50 percent of a contract may be paid six months in advance, and the company also pays a premium price for certified organic and shade-grow coffee.

2. How has this fair trade agreement affected the coffee growers’ regions and lifestyles?

Equal Exchange buys directly from cooperatives owned and run by farmers who govern the even distribution of income and services such as education and healthcare. The growers’ entire region has benefited from projects the farm cooperatives undertake with their additional income; including reforestation programs, building new schools day care centers, and carpentry workshops.

3. How has Equal Exchange gone beyond other organizations to be socially and ethically responsible?

They congratulate fellow coffee giants Starbucks and Green Mountain when they announced they were entering into fair trade agreements with coffee farmers. They raise the bar of ethical standards in the coffee business.