

## **CHAPTER 2 - BUSINESS ETHICS AND SOCIAL RESPONSIBILITY**

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### **TRUE/FALSE**

1. Ethics is the study of how people should act.

ANS: T                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

2. Life Principles are set by your parents and do not change over time.

ANS: F                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

3. There is strong evidence that ethical behavior pays off financially for businesses.

ANS: F                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

4. Unethical behavior is a bar to financial success.

ANS: F                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

5. John Akers, former chairman of IBM, argues that ethics are not important to economic competitiveness.

ANS: F                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

6. Society is hurt when business managers behave ethically.

ANS: F                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

7. Researchers who study happiness find that people expect material goods to make them happier than they actually do.

ANS: T                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

8. Generally, ethical managers have happier, more satisfying lives.

ANS: T                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

9. The behavior of top executives regarding ethical issues has little effect on the behavior of the employees of the organization.

ANS: F                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

10. A company that engages in unethical behavior may suffer severe consequences.

ANS: T                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

11. Wever, Inc. is considering relocating a facility to Mexico. The interests of the various stakeholders affected by this decision may conflict.

ANS: T                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

12. Utilitarian ethics holds that decisions should be made on the basis of practicality, and whatever action is most convenient should be favored.

ANS: F                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

13. There are values, such as integrity, that are generally considered universal.

ANS: T                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

14. Deontologists would agree that the increasing medical concern over obesity in the United States justifies federal regulation of high fat, high sugar, low nutrition food advertising during children's television programs.

ANS: T                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

15. Immanuel Kant was a German philosopher who was a proponent of utilitarian ethics.

ANS: F                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

### MULTIPLE CHOICE

1. In analyzing a situation to determine how to act ethically, a business manager should:
- gather background information by either talking firsthand with the people involved or by talking to those who gained information informally through the company "grapevine."
  - narrowly focus on a single issue.
  - determine whether an alternative violates important values.
  - All of the answers are correct.

ANS: C                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

2. Zeno, Inc. is considering relocating its manufacturing facility from Illinois to Mexico City. The stakeholders in this decision might include:
- Zeno's shareholders.
  - customers.
  - the Illinois community in which Zeno operates.
  - All of the above.

ANS: D                      PTS: 1                      MSC: AACSB Reflective Thinking | AACSB Ethics

3. Ethics is the study of:
- sovereign immunity.
  - how people should act.
  - respondeat superior*.
  - victimization.

ANS: B                      PTS: 1                      MSC: AACSB Analytic | AACSB Ethics

4. Does ethical behavior maximize profitability?
- Yes, there is concrete evidence that ethical behavior maximizes profitability.
  - No, there is concrete evidence that unethical companies outperform ethical companies.
  - Although there is no guarantee that ethical behavior pays in the short or long run, there is evidence that the ethical company is more likely to win financially.
  - There is strong evidence that ethical behavior pays financially in the long run, but not in the short run.

ANS: C

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

5. Why should ethics be a concern to business?
- Society as a whole benefits from ethical behavior.
  - People feel better when they behave ethically.
  - Unethical behavior can be very costly.
  - All of the above.

ANS: D

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

6. Which of the following values are considered universal?
- Courage.
  - Democracy.
  - Environmental protection.
  - All the answers are correct.

ANS: A

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

7. Which of the following are alternatives in dealing with issues of ethics in advertising?
- Try, in a general way, to minimize racism, sexism, and other exploitation.
  - Include, as part of the development process, a systematic, focused review of the underlying messages contained in advertisements.
  - Refuse to create ads that are potentially demeaning, insensitive, or dangerous, recognizing that such a stand may lead to a loss of clients.
  - All of the above are alternatives in dealing with issues of ethics in advertising.

ANS: D

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

8. A manager making a decision without fraud, prejudice, or favoritism is exhibiting the value of:
- compassion.
  - integrity.
  - fairness.
  - responsibility.

ANS: C

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

9. Research has shown that the least important motivation for managers in behaving ethically is:
- they want to feel good about themselves.
  - they want to feel good about the decisions they make.
  - they value their reputation.
  - profitability.

ANS: D

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

10. Why do many major corporations actively encourage ethical behavior?
- Unethical behavior always damages a business.
  - Unethical behavior can quickly destroy a business.
  - Unethical acts are always illegal.
  - All of the above are reasons that corporations actively encourage ethical behavior.

ANS: B

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

11. Unethical behavior in an organization can create:
- a cynical workforce.
  - a resentful workforce.

- c. an unproductive workforce.
- d. All of the above.

ANS: D

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

12. The observation that "The one and only social responsibility of business is to increase its profits" can be attributed to:
- a. Justice Potter Stewart.
  - b. John Akers.
  - c. Milton Friedman.
  - d. Jeffrey Sachs.

ANS: C

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

13. E-presto, Inc. has established an EthicsLine. EthicsLine is a toll-free phone number that employees can call any time of the day, any day of the week to discuss ethics and report suspected unethical or improper conduct. Why would E-presto establish the EthicsLine?
- a. Ethical behavior improves productivity.
  - b. Ethical behavior increases job stability.
  - c. Unethical behavior can destroy a business.
  - d. All of the above are reasons that would justify establishing an EthicsLine.

ANS: D

PTS: 1

MSC: AACSB Reflective Thinking | AACSB Ethics

14. Kent needed to reduce his workforce by five people. Before notifying them, he thought about how he would feel if he were the one receiving the news and he tried to find ways to help the employees in their transition. Kent was exercising the value of:
- a. courage.
  - b. compassion.
  - c. fairness.
  - d. responsibility.

ANS: B

PTS: 1

MSC: AACSB Reflective Thinking | AACSB Ethics

15. Charlie Sheen's drug use and violent behavior:
- a. were bad enough that to warrant CBS's firing of him from a hit TV show.
  - b. have no impact on his job as an actor.
  - c. enhance his reputation as a "tough guy" and should be tolerated.
  - d. are false accusations.

ANS: A

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

16. Ethical companies:
- a. tend to earn higher returns than companies that engage in wrong-doing.
  - b. tend to have more creative employees than companies that engage in wrong-doing.
  - c. are guaranteed to be more profitable in the long run than companies that engage in wrong-doing.
  - d. All of the above..
  - e. Both (a) and (b).

ANS: E

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

17. Chelvam is the director of quality control. Chelvam rejected some parts as non-conforming to the specifications. Chelvam's supervisor directs him to accept the parts. Which value might give Chelvam the strength to oppose his supervisor?
- a. Consideration.

- b. Courage.
- c. Greed.
- d. Ambition.

ANS: B

PTS: 1

MSC: AACSB Reflective Thinking | AACSB Ethics

18. Paul decided he did not want the new jeans he had purchased from a large discount department store. He had worn them three times and decided he just did not like them. The jeans fit him fine and there is nothing wrong with them. He takes the jeans back to the store and, as is its policy, the store gave him a full refund of his money. Which statement is correct?
- a. Paul's conduct was ethical as long as he was within the time frame for returns.
  - b. Paul's conduct was unethical.
  - c. This is not an issue of ethics since people do this all the time.
  - d. Paul's conduct was ethical since the store has a legal duty to return his money when he returned the jeans.

ANS: B

PTS: 1

MSC: AACSB Reflective Thinking | AACSB Ethics

19. The Chief Executive Officer of Tigor, Inc. must decide about the disposal of toxic waste materials. Which of the following considerations should help the CEO reach an ethical business decision?
- a. Toxic waste disposal law.
  - b. The harm the disposal could cause to the environment.
  - c. The impact on the business if the decision is publicly disclosed through the news media.
  - d. All of the above.

ANS: D

PTS: 1

MSC: AACSB Reflective Thinking | AACSB Ethics

20. Don runs a construction company. He hires people to work on his projects and tells them they are all "independent contractors." Legally, they are not independent contractors since Don tells the workers when to come to work, how long to work, what days to work, what they are to do each day, and so forth. At the end of each week, Don pays his workers in cash rather than with a check. Also, he does not withhold any state, federal or local withholding tax (since he claims the workers are independent contractors). Which statement is correct?
- a. Don has committed both unethical and illegal conduct.
  - b. Don has committed unethical conduct, but it is legal.
  - c. Don has committed ethical conduct but it is illegal.
  - d. Don has committed both ethical and legal conduct.

ANS: A

PTS: 1

MSC: AACSB Reflective Thinking | AACSB Ethics

21. Which of the following is NOT a stakeholder?
- a. a business competitor.
  - b. shareholders.
  - c. employees.
  - d. the environment.

ANS: A

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

22. Nortron Corporation wants to create an ethical environment in its company. Which of the following has been found to help foster a sense of ethics within an organization?
- a. The company may develop a formal, written ethics code.
  - b. The company may institute a formal ethics training program for the employees.
  - c. The top executives may provide good examples by behaving ethically themselves.
  - d. All of the above alternatives have been used by U.S. companies to create an ethical environment in their organizations.

ANS: D

PTS: 1

MSC: AACSB Reflective Thinking | AACSB Ethics

23. Lois is running for political office. She trails the incumbent and decides to start running a series of "attack ads." The attack ads are very effective and one week before the election it appears that she has drawn even with her opponent. Lois admits that the attack ads were exaggerations and contained some distortions. Which statement is correct?
- Lois has engaged in unethical behavior.
  - Lois has engaged in ethical behavior since she has an obligation to her supporters to run a campaign that will help her get elected.
  - It is not possible to determine whether Lois's attack ads were ethical or unethical.
  - Assuming Lois's attack ads were unethical, her conduct is justified and proper if she to gets elected.

ANS: A

PTS: 1

MSC: AACSB Reflective Thinking | AACSB Ethics

24. In 1919, Henry Ford was sued because:
- he used corporate profits to support humanitarian and charitable works.
  - he diverted corporate profits for personal gain.
  - the Dodge brothers wanted a bigger role in management.
  - his factory was deemed to be a sweatshop.

ANS: A

PTS: 1

MSC: AACSB Analytic | AACSB Ethics

25. John discovered his company's accountant was "skimming" money from the business. The accountant agreed to pay John a one-time payment of \$25,000 not to report the skimming to company officials. The accountant promised she would pay the money back when she could. John accepted the money and never reported what he knew. A year later the accountant was fired when the embezzlement was discovered. She was also prosecuted for theft. The payment to John was never discovered. Which statement is correct?
- John's act was unethical and illegal.
  - John's act was unethical but not necessarily illegal.
  - John's act was ethical since he believed the accountant would return the money; however, it was illegal.
  - Based on the facts, John's conduct was both ethical and legal given the special circumstances of this case.

ANS: A

PTS: 1

MSC: AACSB Reflective Thinking | AACSB Ethics

## ESSAY

1. Oxtron, Inc. arranged for two employees, Kaiya and Gary, to attend "The Business Ethics 2008 Conference: Maintaining Credibility" in New York City. Although Gary goes to New York, he does not participate in the conference. Instead, he takes in the local attractions. Kaiya fully participated in the conference. Using ethical standards, describe what Kaiya should do about Gary's failure to participate in the conference.

ANS:

Kaiya has to ask herself the following questions:

- Is there an issue of dishonesty in this case?
- Who, if anyone, is hurt by Gary's action?
- Who, if anyone, would be hurt if I reported Gary's action?
- What are my alternatives?
- What are the ethical implications of each alternative?
  - Is it legal?

- How would it look in the light of day?
- What are the consequences?
- Does it violate important values?
- What kind of world would this be if everyone behaved this way?
- Which of these alternatives match my Life Principles?

PTS: 1

MSC: AACSB Communication | AACSB Reflective Thinking | AACSB Ethics

2. Tianhui was recently hired as a sales representative by Oxtron, Inc. Before leaving on his first sales trip, a number of the other sales representatives take Tianhui aside and tell him that it is customary for the sales representatives to "pad" (increase) their expense reports each month by 20%. Use utilitarian ethics to decide what Tianhui should do about the expense report he submits to Oxtron.

ANS:

According to utilitarian ethics, Tianhui could justify padding his report because:

- It will increase his overall happiness.
- Increase in pay will help him feel better about going on trips, and make him more successful.
- Help him "fit in" with the other sales staff, increasing morale for all.
- The end result will be better because he will more likely stay with this job, decreasing employee turnover costs.

PTS: 1

MSC: AACSB Communication | AACSB Reflective Thinking | AACSB Ethics

3. Identify and discuss six values that are almost universal.

ANS:

The six universal values discussed in the textbook are:

- (a) Compassion. Compassion means being aware of and concerned about other people's feelings, desires, and needs. A compassionate person is able to imagine how he would feel in someone else's place and to react accordingly.
- (b) Courage. Courage is the strength to act even if danger exists and the person is fearful.
- (c) Fairness. Fairness requires that decisions be made without fraud, prejudice, or favoritism.
- (d) Integrity. This quality means being sincere, honest, and loyal.
- (e) Responsibility. Responsibility means being trustworthy and dependable. A responsible person meets commitments and lives up to promises.
- (f) Self-control. A person with self-control is able to resist temptation and does not over-indulge.

PTS: 1

MSC: AACSB Communication | AACSB Ethics

4. Li is the vice president of marketing for Felson, Inc., a manufacturer of children's clothing. Felson is considering building a factory in a developing country, where there are few restrictions on working conditions, wages, or maximum work hours. Which viewpoint: utilitarian or deontological would support this move? Why?

ANS:

A utilitarian viewpoint would support building a factory in a developing country because:

- Felson would save money, enabling them to lower their prices to consumers.
- Workers in developing countries are willing to work, even under harsh conditions, because they need the money.
- Industrialization, even with sweatshops, leads to economic growth for a society.

- Without the factory, the workers in this country may even starve.

PTS: 1

MSC: AACSB Communication | AACSB Reflective Thinking | AACSB Ethics

5. Oxtron, Inc. is considering establishing a program that actively encourages ethical behavior. What reasons would support Oxtron's adoption of an ethics program?

ANS:

The following reasons support an ethics program: (1) society as a whole benefits from ethical behavior; (2) people feel better when they behave ethically; (3) unethical behavior can be very costly; and (4) ethical behavior is more likely to pay off with a better reputation, more creative and cooperative employees, and higher returns than companies that engage in wrong-doing.

PTS: 1

MSC: AACSB Communication | AACSB Reflective Thinking | AACSB Ethics