
Answers to Issue Spotters, Straight to the Point, Real Law, and Ethical Questions

CHAPTER 2

ETHICS IN BUSINESS

ANSWERS TO ISSUE SPOTTERS

1A. *Mac Tools, Inc., markets a product that under some circumstances is capable of seriously injuring consumers. Does Mac have an ethical duty to remove this product from the market, even if the injuries result only from misuse?* Maybe. On the one hand, it is not the company's "fault" when a product is misused. Also, keeping the product on the market is not a violation of the law, and stopping sales would hurt profits. On the other hand, suspending sales could reduce suffering and could stop potential negative publicity if sales continued.

2A. *Acme Corporation decides to respond to what it sees as a moral obligation to correct for past discrimination by adjusting pay differences among its employees. Does this raise an ethical conflict between Acme's employees? Between Acme and its employees? Between Acme and its shareholders?* When a corporation decides to respond to what it sees as a moral obligation to correct for past discrimination by adjusting pay differences among its employees, an ethical conflict is raised between the firm and its employees and between the firm and its shareholders. This dilemma arises directly out of the effect such a decision has on the firm's profits. If satisfying this obligation increases profitability, then the dilemma is easily resolved in favor of "doing the right thing."

ANSWERS TO STRAIGHT TO THE POINT QUESTIONS

1A. *Why is the study of business ethics important?* An understanding of business ethics is important to the long-run viability of a business firm and to the well being of the firm's officers, managers, and employees. A business firm also owes duties to a variety of "stakeholders" whom the firm's decisions and activities may affect significantly.

2A. *How can businesspersons encourage ethical conduct in their workplaces?* Ethical leadership is important to create and maintain an ethical workplace. Managers can set standards, and apply those standards to themselves and their firm's employees. And the employees can encourage their co-workers to act ethically by following those standards.

3A. *How does the Sarbanes-Oxley Act help to prevent unethical management decisions?* The Sarbanes-Oxley helps to prevent unethical business management decisions by providing for greater government oversight of public accounting practices. For those firms that violate the act, sanctions can be imposed—accounting licenses can be suspended and financial penalties can be assessed.

4A. *How should business decision makers proceed when the legality of a particular action is not clear?* When business firms cannot predict with a fair amount of certainty whether a given action would be legal, the decision makers should proceed with caution and evaluate an action and its consequences from an ethical perspective.

5A. *What are the two fundamental approaches by which ethical business reasoning has traditionally been characterized?* One approach defines ethical behavior in terms of duty, which implies the existence of certain rights. The other approach determines what is ethical in terms of the consequences, or outcome, of a given action.

6A. *What is the concept of corporate social responsibility?* Groups concerned with employee safety and other causes often urge corporations to act responsibly with respect to those causes. That corporations have such a responsibility is the concept of corporate social responsibility.

7A. *How might social media raise ethical questions with respect to business hiring decisions?* An online search of a job applicant can reveal the prospective employee's postings, photos, videos, blogs, and tweets—or the absence of a social media presence. A determination of the candidate's suitability for the job can be influenced by the display of these outside activities or by the lack of a display. Is this ethical?

ANSWERS TO REAL LAW QUESTIONS

2–1A. *Business ethics*

Ethical behavior on the part of employees is an important issue—as important as the ethics of their employers. In any set of employment circumstances, an unethical employee may engage in wrongful conduct.

In this problem, Priscilla Dickman worked for the University of Connecticut Health Center. Her employer received complaints that she was getting non-business-related phone calls and that she was absent from her work area when she should have been present. Based on materials found on her work computer, the state investigated her for violations of state law. She was convicted of engaging in “personal business for financial gain on state time utilizing state resources.” Separate investigations resulted in convictions for forgery and filing an unrelated fraudulent insurance claim. She “retired” from her job and filed a claim against the health center, alleging that her former employer had initiated the investigations to harass her and force her to quit. The claim was dismissed for lack of “credible evidence or legal support.”

All of Dickman’s acts noted in these facts can be perceived as unethical—the conduct complained of to her employer, the activities revealed by the state’s investigations, and the filing of the claim against her employer. The factor that these acts have in common is *fraud*. The conduct for which she was convicted of engaging in “personal business for financial gain on state time utilizing state resources” was presumably undertaken without her employer’s knowledge or there would have been no conviction. The activities on which her other convictions were based would also have involved deceit. And the reasons for the dismissal of her claim indicate that it, too, was knowingly false.

In the actual case on which this problem is based, Dickman appealed her claim’s dismissal. A state intermediate appellate court affirmed it.

2–2A. *Business ethics*

Ethics is the study of what constitutes right and wrong behavior. It is a branch of philosophy focusing on morality and the way moral principles are derived and implemented. Ethics has to do with the fairness, justness, rightness, or wrongness of an action. Those who study ethics evaluate what duties and responsibilities exist or should exist for its practitioners. The circumstances set out in this problem underscore the importance of ethics by illustrating the consequences of engaging in ethical misconduct. Those consequences can extend beyond the short run.

Clearly, Glass engaged in ethical misconduct. By fabricating material for more than forty articles for *The New Republic* magazine and other publications whose reputations are founded on truth, Glass betrayed the trust of his editors. He further behaved unethically by fabricating supporting materials to delude *The New Republic’s* fact checkers. And once he was suspected, he tried to avoid detection. Later, based on these misdeeds and others, the California Supreme Court refused to admit Glass to the California bar.

Does Glass deserve a “second chance”? Based on the facts in this problem, it can be argued that no, he does not—he had more than one “second chance” and blew them all. This is indicated by the California Supreme Court’s citation of “numerous instances of dishonesty and disingenuousness” during Glass’s “rehabilitation” following “the exposure of his misdeeds.” From a more forgiving perspective, it could be argued that he does deserve another chance—because of his misdeeds, his every move will be closely scrutinized and any misconduct would most likely be swiftly spotted and thwarted.

In the actual case on which this problem is based, Glass had earlier applied for, and been denied, admission to the New York bar. Then, as stated in the facts, on Glass’s application to the California bar, the California Supreme Court denied him.

2–3A. *Business ethics*

Business ethics might have been violated in these circumstances by Mark Ramun, John Ramun, and the employees and managers of Genesis.

The “tense relationship” between John and Mark at Allied may have been caused or exacerbated by either or both of them. And instead of confronting whatever it was that made their relationship “tense,” they may have exacted revenge—John by forcing Mark out of the firm, or Mark by leaving it, after ten years. Of course, this is speculation.

What is not speculation, however, is that Mark took 15,000 pages of Allied’s documents on DVDs and CDs (trade secrets) when he left the firm. This act was likely a violation of the law (theft or misappropriation) and clearly a violation of business ethics. Later, Mark joined Allied’s competitor, Genesis Equipment & Manufacturing, Inc. Genesis soon developed a piece of equipment that incorporated elements of Allied equipment. This points to a second violation of the law and ethics (use of stolen property) by both Mark and Genesis. Mark appears to have been competing against his family in the marketplace and trying to sell his products through another company. Assuming that Genesis profited from its sale of the equipment, this would have caused losses to Allied and unjustly enriched Genesis. If Mark was paid a bonus or given a promotion, he too would have gained undeservedly.

In the actual case on which this problem is based, Allied filed a suit in a federal district court against Genesis and Mark for misappropriation of trade secrets. A jury awarded Allied more than \$3 million in damages, but the court issued a judgment as a matter of law in favor of the defendants. On appeal, the U.S. Court of Appeals for the Sixth Circuit reversed. “It is neither speculative nor conjectural that Genesis unjustly benefitted from its use of Allied’s trade secrets.”

ANSWERS TO ETHICAL QUESTIONS

2–4A. *Ethical workplace*

Factors that help to create an ethical workplace include a written code of ethics, a policy statement, the effective communication of ethical policies to employees, and the attitude and conduct of management.

2–5A. *Ethical leadership*

Managers set the standards for attitudes and behavior in a workplace. Managers who are not committed to maintaining an ethical workplace will not succeed in creating one. Employees take their lead from managers. If managers act unethically, employees will do likewise.

In this problem, Mark Clapp, the director of a city's Public Safety Department (PSD), made "inappropriate statements" to a subordinate about the qualifications and conduct of Albert DiBrito, the PSD's deputy director. Meanwhile, DiBrito made similarly "inappropriate statements" about Clapp to other PSD employees. Clapp's statements seem to have led to DiBrito's.

There are a number of steps that the city's manager Richard Lewis could take to prevent future conflicts. Disciplinary actions—suspension without pay or even termination—represent one set of possibilities. Incorporating an ethical code of conduct into the city's statements of policy, or at least prohibiting such statements as contributed to the dispute here, constitute other courses of action.

Whatever steps Lewis takes, however, he should do something. To do nothing would be perceived by other employees as an endorsement of Clapp's and DiBrito's behavior. This would encourage, not discourage, more conflict.

In the actual case on which this problem is based, Lewis suspended Clapp for five days without pay and fired DiBrito. DiBrito filed a suit in a federal district court against the city, alleging a violation of his constitutional rights. The court issued a summary judgment in the city's favor. On DiBrito's appeal, the U.S. Court of Appeals for the Sixth Circuit affirmed.