

Chapter 03 - Business Ethics and Corporate Social Responsibility

**Chapter 03**

**Business Ethics and Corporate Social Responsibility**

**True / False Questions**

1. Critics of capitalism and Corporate America increasingly argue that corporations should follow socially responsible standards higher than that imposed by law.

True   False

2. Under Kantianism, an ethical decision is one that maximizes utility for society as a whole.

True   False

3. Under utilitarianism, an action is ethical only if the benefits to society outweigh their costs.

True   False

4. Critics claim that allocational efficiency is not society's only goal and that sometimes it must be sacrificed for other social concerns.

True   False

5. Corporations sometimes consciously choose to break the law if it poses acceptable risks such as relatively light penalties for violation, if the benefits gained by doing so are great.

True   False

6. Market forces serve as a sufficient control on corporate behavior because the market always reveals social and environmental harm.

True   False

7. A group of people who must reach a consensus on an acceptable level of risk often decide on a level of risk lower than the risk they would accept as individuals is known as risky shift.

True   False

8. If culture does shape ethical attitudes, managers in individualist societies may be more inclined to engage in insider trading than members of more collectivist societies.

True False

9. The Organization for Economic Cooperation and Development is an international institution created for the purpose of promoting harmonized rules where multilateral cooperation is necessary.

True False

10. There is no guarantee that the values of "ethical" shareholders would be representative of society as a whole.

True False

11. According to the new federal sentencing guidelines implemented as part of Sarbanes-Oxley, the U.S. Sentencing Commission judges should increase the fines for companies if their directors do not take reasonable steps to monitor managerial conduct in order to discover and prevent criminal activity.

True False

12. Even if the law enforces corporations to engage in ethical behavior, it is not certain that all corporations will respond to the threat of financial penalties.

True False

13. According to Joseph L. Badaracco Jr., the question "Which alternative best serves others' rights?" is teleological in nature in that it focuses on the morality of the consequences of the decision.

True False

14. The FCPA allows a company to pay governmental officials to secure routine governmental action.

True False

15. According to the Foreign Corrupt Practices Act (FCPA), a U.S. firm is not liable for bribes made by its foreign agents under any circumstances.

True False

**Multiple Choice Questions**

16. Deontological theory focuses on:

- A. actions.
- B. consequences.
- C. prime movers.
- D. just distribution of society's resources.

17. Under Kant's "categorical imperative":

- A. we must judge an action by applying it universally.
- B. we should manipulate others for our self-interest.
- C. the teleological ethical theory is dominant.
- D. the consequences of a decision are focused on, when deciding if it is ethical.

18. Modern rights theory:

- A. holds that duties are absolute.
- B. holds that we should not abide by a rule unless a more important rule conflicts with it.
- C. must determine the fundamental rights and how they are ranked in importance.
- D. argues for a just distribution of society's resources.

19. The theory that calls for a fair allocation of society's benefits and burdens among all members of society is:

- A. the allocational efficiency theory.
- B. Kantianism.
- C. the modern rights theory.
- D. the justice theory.

20. Under John Rawls's justice theory:

- A. decision makers' choices are to be guided by fairness and impartiality.
- B. the focus is on the process of decision making, not the outcome.
- C. society's benefits and burdens should fall on only certain segments of society.
- D. the morality of any action is determined by applying the categorical imperative.

21. Under act utilitarianism:

- A. an ethical decision is one that minimizes utility for society as a whole.
- B. each person has an equal right to basic rights and liberties.
- C. the action is viewed as part of a rule or habit.
- D. the decision maker considers each action separately.

22. A teleological theory based on the laissez-faire theory is:

- A. act utilitarianism.
- B. profit maximization.
- C. rule utilitarianism.
- D. difference principle.

23. Under the allocational efficiency theory, the primary objective of a business corporation is to:

- A. maximize profit.
- B. minimize fraudulent activities.
- C. maximize corporate social responsibility.
- D. minimize criticism.

24. The regulatory agency "capture" usually occurs through:

- A. the official governmental dissolution of an agency.
- B. the frequent exchange of personnel between a governmental agency and the industry it was intended to regulate.
- C. litigation between a corporation and governmental agency.
- D. the use of political influence to reduce the funding received by the agency enforcing the legislation.

25. Many corporations initiate legislation in order to:

- A. head off the risk of future unpredictable lawsuits.
- B. ensure that their competitors are subject to more rigid constraints than is applicable to them.
- C. enhance the community in which the company is located.
- D. maximize the risk of more costly regulations for competitors.

26. The Sarbanes-Oxley Act:

- A. substantially increases the penalties for corporate wrongdoing.
- B. gives corporations greater freedom from government control.
- C. adopts the theory of allocational efficiency.
- D. motivates executives to inflate reports of corporate profits.

27. The Sarbanes-Oxley Act:

- A. creates a PCA Oversight Board with the authority to regulate CPA firms that audit publicly-traded companies.
- B. narrowly defines the meaning of "obstruction of justice" and decreases the penalties for conscious law breaking.
- C. decreases the likelihood of detection and prosecution of illegal behavior.
- D. adopts the theory of allocational efficiency, under which the primary objective of a business corporation is to maximize profits.

28. The phenomenon of "risky shift" means:

- A. that groups do not accept higher risks than individuals.
- B. that a corporation will shift its risk onto its customers.
- C. that a group of people who must reach a consensus on an acceptable level of risk often decide on a level of risk higher than the risk they would accept as individuals.
- D. the tendency for members of a group to internalize the group's values and perceptions and to suppress critical thought.

29. Which of the following is an example of groupthink?

- A. The five officers of Gateway are planning a business enterprise they know to be highly profitable. Two know the plan to be illegal. Nevertheless, they do not voice their concerns, but go along with the team's plan.
- B. The five officers of Gateway devise a highly profitable plan. Dan, the CFO, points out to the group that the plan will likely get the company a good deal of negative publicity. Dan states that he will not sanction the team's plan.
- C. Mike, Sean, and Ned draft plans for a new software company. They have all thought through their plans and no one has any criticisms or concerns.
- D. Two Africans approach an automotive company for a dealership. The company informs them that the vast majority of black dealers are not successful in making a profit. They convince the Africans against making the deal.

30. The tendency to internalize group values and suppress critical thought is known as:

- A. risky shift.
- B. social loafing.
- C. herd behavior.
- D. groupthink.

31. Corporate social responsibility argues that ethical guidance for corporate managers may come from:

- A. values that are influenced by culture.
- B. corporate or industry codes of conduct.
- C. corporations giving preference to their employees over the other constituencies.
- D. an array of conflicting ethical views.

32. The problem with looking to "values that find wide acceptance" as a guide to ethical corporate behavior is that:

- A. modern life holds a diversity of conflicting ethical views.
- B. most widely-accepted values are uninformed.
- C. companies will always look to profit maximization over anything else.
- D. in today's global world, culture has no effect on the ethical attitudes of business managers.

33. The Sarbanes-Oxley Act requires that:

- A. public corporations disclose whether they have adopted a code of ethics for senior financial officers.
- B. private corporations report any change in their code of ethics.
- C. privately traded corporations have board audit committees comprising only of dependent directors.
- D. special committees of the board be assigned to special areas of concern.

34. Which of the following is true of the Organization for Economic Cooperation and Development (OECD)?

- A. Coordinates domestic and international policies of developing countries.
- B. Asserts that most company codes tend to speak in positive terms such as a commitment to honesty.
- C. Created to promote rules for the corporations based on the culture of the place.
- D. Asserts that most enterprises' codes of conduct expressly publish policies that deal directly with corruption.

35. Corporate codes of ethical conduct:

- A. effectively deter unethical behavior.
- B. are sometimes viewed as a thinly-veiled attempt to mislead the public into thinking that the company behaves ethically.
- C. accurately reflect the values of society.
- D. tend to expressly publish policies that deal directly with corruption to avert legal measures that might impose severe constraints.

36. The problem with the view that a corporation should attempt to act in the best interests of all of its various constituencies is that:

- A. this tactic ignores the bottom line.
- B. corporate managers often have a better sense of what is right.
- C. the values of these constituencies may conflict.
- D. local communities will not benefit from these values.

37. Advocates for socially responsible corporations sometimes recommend that corporations can sensitize themselves to outside concerns by restructuring their decision making processes to include:

- A. giving shareholders lesser power.
- B. changing the composition of the corporate board.
- C. promoting lesser transparency within corporate structures.
- D. giving greater immunity to corporates.

38. It is unlikely that greater control by shareholders will lead to greater corporate social responsibility because:

- A. most shareholders are motivated by maximizing profits and are unlikely to approve corporate actions contrary to that end.
- B. many shareholders have access to the information necessary to closely monitor the noneconomic performance of a company.
- C. there is a definite chance that the values of "ethical" shareholders would be representative of society as a whole.
- D. shareholders will have the power to adopt resolutions binding the corporate managers.

39. The OECD's Principles of Corporate Governance insists on:

- A. greater immunity power for corporate managers.
- B. lesser transparency within corporate structures.
- C. greater concealment of corporate governance policies to avoid conflicts of interest.
- D. greater protection for whistleblowers.



40. The new federal sentencing guidelines implemented as part of Sarbanes-Oxley:
- A. apply both to individual board members and the corporation itself.
  - B. assign specific oversight responsibilities to directors.
  - C. are designed to give management immunity.
  - D. call for special committees of the board to be assigned similar functions.
41. Some of the problems raised by corporate reward structures include:
- A. focusing on long-term rather than short-term profitability.
  - B. the interests of managers always being aligned with the long-range interests of the company.
  - C. managers being inclined sometimes to act irresponsibly and/or illegally without an eye to legal trouble that may occur in the future.
  - D. firms sacrificing the present to the future thereby promoting long-term allocational inefficiency.
42. Law may not be up to the task of forcing corporations to engage in ethical behavior for a number of reasons, including that:
- A. it is not clear that all corporations will respond to the threat of financial penalties imposed by law.
  - B. judges are likely to be sympathetic to corporations.
  - C. Sarbanes-Oxley decreases the likelihood that illegal behavior will be detected.
  - D. corporations voluntarily elect to pursue ethical ends.
43. A corporate manager looking for ethical guidance that neither the law nor social norms accounts for must rely on:
- A. a strategy that will maximize profits.
  - B. his/her individual conscience.
  - C. the advice of other managers.
  - D. his/her system of delegation to subordinates.

44. A grease payment:

- A. is one that is made by a company toward foreign governmental officials to secure routine governmental action.
- B. is one that is made by a company to the government for the purpose of obtaining goods-and-services contracts.
- C. is an offer to make a prohibited payment.
- D. is any gift of value to government officials for the purpose of obtaining business.

45. The Foreign Corrupt Practices Act (FCPA):

- A. prohibits payments of kickbacks to foreign businesses and their corporate officials.
- B. imposes recordkeeping and internal-controls requirements on any corporation whose shares are privately traded in the United States.
- C. does not require a U.S. parent corporation to make a good faith effort if the parent owns less than a majority interest in the foreign corporation.
- D. deals only with payments to foreign governmental officials.

#### **Short Answer Questions**

46. Explain the difference between deontological and teleological ethical theories. Give an example of each.

47. Explain the theory of utilitarianism.

48. Explain the theory of allocational efficiency and describe some of its some of the criticisms levied against the theory.

49. "Which course of action does the most good and the least harm?" This is one of the questions to be asked by managers while making an ethical decision according to the decision-making model by Joseph L. Badaracco Jr. Discuss the nature and purpose of this question.

50. Suppose you work for a refrigerator manufacturing company that has a factory in a small rural Nebraska town. The refrigerator plant is the town's primary source of income. The company has placed you in charge of investigating the firm's decision to move the factory to Mexico. If the company moves its manufacturing to Mexico, it can produce refrigerators at a much lower cost. Explain what a modern rights theorist would consider under these circumstances.

## Chapter 03 Business Ethics and Corporate Social Responsibility **Answer Key**

### **True / False Questions**

1. (p. 53) Critics of capitalism and Corporate America increasingly argue that corporations should follow socially responsible standards higher than that imposed by law.

**TRUE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Introduction*

2. (p. 54) Under Kantianism, an ethical decision is one that maximizes utility for society as a whole.

**FALSE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

3. (p. 56) Under utilitarianism, an action is ethical only if the benefits to society outweigh their costs.

**TRUE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

4. (p. 58) Critics claim that allocational efficiency is not society's only goal and that sometimes it must be sacrificed for other social concerns.

**TRUE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-02 Make an ethical argument according to each of the predominant ethical theories.*

*Topic: Predominant Ethical Theories*

5. (p. 61) Corporations sometimes consciously choose to break the law if it poses acceptable risks such as relatively light penalties for violation, if the benefits gained by doing so are great.

**TRUE**

## Chapter 03 - Business Ethics and Corporate Social Responsibility

AACSB: Ethics

Bloom's: Understand

Difficulty: Medium

Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.

Topic: The Law as a Corporate Control Device

6. (p. 62) Market forces serve as a sufficient control on corporate behavior because the market always reveals social and environmental harm.

**FALSE**

AACSB: Ethics

Bloom's: Understand

Difficulty: Medium

Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.

Topic: The Law as a Corporate Control Device

7. (p. 63) A group of people who must reach a consensus on an acceptable level of risk often decide on a level of risk lower than the risk they would accept as individuals is known as risky shift.

**FALSE**

AACSB: Ethics

Bloom's: Remember

Difficulty: Easy

Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.

Topic: The Law as a Corporate Control Device

8. (p. 66) If culture does shape ethical attitudes, managers in individualist societies may be more inclined to engage in insider trading than members of more collectivist societies.

**FALSE**

AACSB: Ethics

Bloom's: Understand

Difficulty: Medium

Learning Objective: 03-04 Describe the weaknesses of each of the suggested ways in which one might define ethical behavior.

Topic: Defining Ethical Corporate Behavior

9. (p. 67) The Organization for Economic Cooperation and Development is an international institution created for the purpose of promoting harmonized rules where multilateral cooperation is necessary.

**TRUE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-04 Describe the weaknesses of each of the suggested ways in which one might define ethical behavior.*

*Topic: Defining Ethical Corporate Behavior*

10. (p. 69) There is no guarantee that the values of "ethical" shareholders would be representative of society as a whole.

**TRUE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-05 List three recommendations for making corporations more sensitive to outside concerns and explain the arguments against each reform.*

*Topic: The Corporate Governance Agenda*

11. (p. 70) According to the new federal sentencing guidelines implemented as part of Sarbanes-Oxley, the U.S. Sentencing Commission judges should increase the fines for companies if their directors do not take reasonable steps to monitor managerial conduct in order to discover and prevent criminal activity.

**FALSE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-05 List three recommendations for making corporations more sensitive to outside concerns and explain the arguments against each reform.*

*Topic: The Corporate Governance Agenda*

12. (p. 72) Even if the law enforces corporations to engage in ethical behavior, it is not certain that all corporations will respond to the threat of financial penalties.

**TRUE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-06 Make an ethical decision by employing the four-step model for ethical decision making.*

*Topic: Guidelines for Ethical Decision Making*

13. (p. 73) According to Joseph L. Badaracco Jr., the question "Which alternative best serves others' rights?" is teleological in nature in that it focuses on the morality of the consequences of the decision.

**FALSE**

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-06 Make an ethical decision by employing the four-step model for ethical decision making.*

*Topic: Guidelines for Ethical Decision Making*

14. (p. 75) The FCPA allows a company to pay governmental officials to secure routine governmental action.

**TRUE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-07 After reading a factual situation; identify when (and why) there is (or isn't) a violation of the Foreign Corrupt Practices Act.*

*Topic: Foreign Corrupt Practices Act*

15. (p. 77) According to the Foreign Corrupt Practices Act (FCPA), a U.S. firm is not liable for bribes made by its foreign agents under any circumstances.

**FALSE**

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-07 After reading a factual situation; identify when (and why) there is (or isn't) a violation of the Foreign Corrupt Practices Act.*

*Topic: Foreign Corrupt Practices Act*



**Multiple Choice Questions**

16. (p. 54) Deontological theory focuses on:

- A. actions.
- B. consequences.
- C. prime movers.
- D. just distribution of society's resources.

Deontological theory is an approach to ethics that judges the morality of an action based on the action's adherence to a rule or rules.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

17. (p. 54) Under Kant's "categorical imperative":

- A. we must judge an action by applying it universally.
- B. we should manipulate others for our self-interest.
- C. the teleological ethical theory is dominant.
- D. the consequences of a decision are focused on, when deciding if it is ethical.

Under Immanuel Kant's approach, the morality of any action was determined by applying his categorical imperative. His first formulation of the categorical imperative is to judge an action by applying it universally.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

18. (p. 55) Modern rights theory:

- A. holds that duties are absolute.
- B. holds that we should not abide by a rule unless a more important rule conflicts with it.
- C.** must determine the fundamental rights and how they are ranked in importance.
- D. argues for a just distribution of society's resources.

Modern rights theory is a deontological ethical theory that responds to the perceived weaknesses in Kantianism. Modern rights theorists believe that there may be circumstances when actions like lying and killing could be morally acceptable. They must determine what the fundamental rights are and how they are ranked in importance.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

19. (p. 56) The theory that calls for a fair allocation of society's benefits and burdens among all members of society is:

- A. the allocational efficiency theory.
- B. Kantianism.
- C. the modern rights theory.
- D.** the justice theory.

Justice theory is derived from John Rawls's book "A Theory of Justice," which argued for a just distribution of society's resources. This called for a fair allocation of society's benefits and burdens among all members of society.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

20. (p. 56) Under John Rawls's justice theory:

- A. decision makers' choices are to be guided by fairness and impartiality.
- B. the focus is on the process of decision making, not the outcome.
- C. society's benefits and burdens should fall on only certain segments of society.
- D. the morality of any action is determined by applying the categorical imperative.

Justice theory is derived from John Rawls's book "A Theory of Justice," which argued for a just distribution of society's resources. Under this theory, the decision maker's choices are to be guided by fairness and impartiality; however, the focus is on the outcome of the decision.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

21. (p. 57) Under act utilitarianism:

- A. an ethical decision is one that minimizes utility for society as a whole.
- B. each person has an equal right to basic rights and liberties.
- C. the action is viewed as part of a rule or habit.
- D. the decision maker considers each action separately.

Act utilitarianism states that the decision maker considers each action separately, assessing its costs and benefits to society.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

22. (p. 58) A teleological theory based on the laissez-faire theory is:

- A. act utilitarianism.
- B. profit maximization.**
- C. rule utilitarianism.
- D. difference principle.

Profit maximization is a teleological theory that is based on the laissez-faire theory of capitalism. It contends that business managers should maximize a business's long-run profits within the limits of the law.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

23. (p. 58) Under the allocational efficiency theory, the primary objective of a business corporation is to:

- A. maximize profit.**
- B. minimize fraudulent activities.
- C. maximize corporate social responsibility.
- D. minimize criticism.

Under this theory, the primary objective of a business corporation is to maximize profits.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-02 Make an ethical argument according to each of the predominant ethical theories.*

*Topic: Predominant Ethical Theories*

24. (p. 60) The regulatory agency "capture" usually occurs through:

- A. the official governmental dissolution of an agency.
- B.** the frequent exchange of personnel between a governmental agency and the industry it was intended to regulate.
- C. litigation between a corporation and governmental agency.
- D. the use of political influence to reduce the funding received by the agency enforcing the legislation.

Large corporations, because of their size, resources, and sophistication, have the ability to influence legislation. Even if Congress or the state legislatures enact hostile regulatory legislation, corporations sometimes can blunt its impact. For example, they may co-opt the agency by persuading it to take a probusiness view. This commonly occurs through the frequent exchange of personnel between the agency and the industry it is intended to regulate.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.*

*Topic: The Law as a Corporate Control Device*

25. (p. 60) Many corporations initiate legislation in order to:

- A.** head off the risk of future unpredictable lawsuits.
- B. ensure that their competitors are subject to more rigid constraints than is applicable to them.
- C. enhance the community in which the company is located.
- D. maximize the risk of more costly regulations for competitors.

More and more businesses are taking an active approach to government regulation as they have discovered that by initiating legislation they can head off the risk of later unpredictable lawsuits, influence the nature of the legislation by minimizing the risk of more extensive and costly regulations, and ensure that all of their competitors are subject to the same constraints.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.*

*Topic: The Law as a Corporate Control Device*

26. (p. 60) The Sarbanes-Oxley Act:

- A. substantially increases the penalties for corporate wrongdoing.
- B. gives corporations greater freedom from government control.
- C. adopts the theory of allocational efficiency.
- D. motivates executives to inflate reports of corporate profits.

The Sarbanes-Oxley Act has increased fines and civil damages for corporate wrongdoing by both U.S. and foreign businesses that register their securities on a stock exchange in the United States.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.*

*Topic: The Law as a Corporate Control Device*

27. (p. 61) The Sarbanes-Oxley Act:

- A. creates a PCA Oversight Board with the authority to regulate CPA firms that audit publicly-traded companies.
- B. narrowly defines the meaning of "obstruction of justice" and decreases the penalties for conscious law breaking.
- C. decreases the likelihood of detection and prosecution of illegal behavior.
- D. adopts the theory of allocational efficiency, under which the primary objective of a business corporation is to maximize profits.

The Sarbanes-Oxley Act attempts to increase the likelihood of detection and prosecution and raises the penalties for illegal behavior. Specifically, it creates a five-member Public Company Accounting Oversight Board with the authority to regulate CPA firms that audit publicly traded corporations.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.*

*Topic: The Law as a Corporate Control Device*

28. (p. 63) The phenomenon of "risky shift" means:

- A. that groups do not accept higher risks than individuals.
- B. that a corporation will shift its risk onto its customers.
- C.** that a group of people who must reach a consensus on an acceptable level of risk often decide on a level of risk higher than the risk they would accept as individuals.
- D. the tendency for members of a group to internalize the group's values and perceptions and to suppress critical thought.

Risky shift means that a group of people who must reach a consensus on an acceptable level of risk often decide on a level of risk higher than the risk they would accept as individuals. Thus, the decisions made by a team of managers may create greater legal problems than decisions made by an isolated manager.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.*

*Topic: The Law as a Corporate Control Device*

29. (p. 63) Which of the following is an example of groupthink?

- A.** The five officers of Gateway are planning a business enterprise they know to be highly profitable. Two know the plan to be illegal. Nevertheless, they do not voice their concerns, but go along with the team's plan.
- B. The five officers of Gateway devise a highly profitable plan. Dan, the CFO, points out to the group that the plan will likely get the company a good deal of negative publicity. Dan states that he will not sanction the team's plan.
- C. Mike, Sean, and Ned draft plans for a new software company. They have all thought through their plans and no one has any criticisms or concerns.
- D. Two Africans approach an automotive company for a dealership. The company informs them that the vast majority of black dealers are not successful in making a profit. They convince the Africans against making the deal.

Groupthink is the tendency for members of a group to internalize the group's values and perceptions and to suppress critical thought.

*AACSB: Ethics*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.*

*Topic: The Law as a Corporate Control Device*

30. (p. 63) The tendency to internalize group values and suppress critical thought is known as:
- A. risky shift.
  - B. social loafing.
  - C. herd behavior.
  - D. groupthink.**

Groupthink is the tendency for members of a group to internalize the group's values and perceptions and to suppress critical thought.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-03 Clearly explain the four major limits on the ability of law to control corporate behavior.*

*Topic: The Law as a Corporate Control Device*

31. (p. 66) Corporate social responsibility argues that ethical guidance for corporate managers may come from:
- A. values that are influenced by culture.
  - B. corporate or industry codes of conduct.**
  - C. corporations giving preference to their employees over the other constituencies.
  - D. an array of conflicting ethical views.

Corporate social responsibility advocates argue that ethical guidance for corporate managers may come from three sources: values that find wide acceptance, corporate or industry codes of conduct, and constituency values.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-04 Describe the weaknesses of each of the suggested ways in which one might define ethical behavior.*

*Topic: Defining Ethical Corporate Behavior*



32. (p. 66) The problem with looking to "values that find wide acceptance" as a guide to ethical corporate behavior is that:

- A. modern life holds a diversity of conflicting ethical views.
- B. most widely-accepted values are uninformed.
- C. companies will always look to profit maximization over anything else.
- D. in today's global world, culture has no effect on the ethical attitudes of business managers.

One theory suggests that ethical corporate behavior should be based on values that actually find wide acceptance today. However, corporations and managers adopting this course will immediately confront an unfortunate fact of modern life: its bewildering array of conflicting ethical views.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-04 Describe the weaknesses of each of the suggested ways in which one might define ethical behavior.*

*Topic: Defining Ethical Corporate Behavior*

33. (p. 66-67) The Sarbanes-Oxley Act requires that:

- A. public corporations disclose whether they have adopted a code of ethics for senior financial officers.
- B. private corporations report any change in their code of ethics.
- C. privately traded corporations have board audit committees comprising only of dependent directors.
- D. special committees of the board be assigned to special areas of concern.

The Sarbanes-Oxley Act requires public corporations to disclose whether they have adopted a code of ethics for senior financial officers and to report any change in the code or waiver of their application.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-04 Describe the weaknesses of each of the suggested ways in which one might define ethical behavior.*

*Topic: Defining Ethical Corporate Behavior*

34. (p. 67) Which of the following is true of the Organization for Economic Cooperation and Development (OECD)?

- A. Coordinates domestic and international policies of developing countries.
- B.** Asserts that most company codes tend to speak in positive terms such as a commitment to honesty.
- C. Created to promote rules for the corporations based on the culture of the place.
- D. Asserts that most enterprises' codes of conduct expressly publish policies that deal directly with corruption.

The Organization for Economic Cooperation and Development (OECD), an international institution was created for the purpose of promoting harmonized rules where multilateral cooperation is necessary. OECD asserts that most company codes tend to speak in positive terms such as a commitment to honesty.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-04 Describe the weaknesses of each of the suggested ways in which one might define ethical behavior.*

*Topic: Defining Ethical Corporate Behavior*

35. (p. 67) Corporate codes of ethical conduct:

- A. effectively deter unethical behavior.
- B.** are sometimes viewed as a thinly-veiled attempt to mislead the public into thinking that the company behaves ethically.
- C. accurately reflect the values of society.
- D. tend to expressly publish policies that deal directly with corruption to avert legal measures that might impose severe constraints.

There are two popular views of corporate codes of ethical conduct. One view sees them as genuine attempts to foster ethical behavior within a corporation or an industry. The other view regards them as thinly disguised attempts to mislead the public into believing that business behaves ethically in order to head off legislation that might impose more severe constraints on it.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-04 Describe the weaknesses of each of the suggested ways in which one might define ethical behavior.*

*Topic: Defining Ethical Corporate Behavior*

36. (p. 67) The problem with the view that a corporation should attempt to act in the best interests of all of its various constituencies is that:

- A. this tactic ignores the bottom line.
- B. corporate managers often have a better sense of what is right.
- C. the values of these constituencies may conflict.**
- D. local communities will not benefit from these values.

The large modern corporation interacts with a number of important constituencies like employees, unions, suppliers, customers, and the community in which it operates. Related to this perception is a view of corporate responsibility that holds the corporation should attempt to act in the best interests of all of its various constituencies. The problem with this view is that the values of these constituencies may conflict.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-04 Describe the weaknesses of each of the suggested ways in which one might define ethical behavior.*

*Topic: Defining Ethical Corporate Behavior*

37. (p. 69) Advocates for socially responsible corporations sometimes recommend that corporations can sensitize themselves to outside concerns by restructuring their decision making processes to include:

- A. giving shareholders lesser power.
- B. changing the composition of the corporate board.**
- C. promoting lesser transparency within corporate structures.
- D. giving greater immunity to corporates.

Critics of the corporation have made numerous recommendations for changing the composition of the corporate board of directors so it might better force management to assume a more responsible posture.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-05 List three recommendations for making corporations more sensitive to outside concerns and explain the arguments against each reform.*

*Topic: The Corporate Governance Agenda*

38. (p. 69) It is unlikely that greater control by shareholders will lead to greater corporate social responsibility because:

- A. most shareholders are motivated by maximizing profits and are unlikely to approve corporate actions contrary to that end.
- B. many shareholders have access to the information necessary to closely monitor the noneconomic performance of a company.
- C. there is a definite chance that the values of "ethical" shareholders would be representative of society as a whole.
- D. shareholders will have the power to adopt resolutions binding the corporate managers.

It is highly unlikely that greater control by shareholders will lead to greater corporate social responsibility because many, if not most, shareholders have a considerable interest in profit maximization and are not likely to initiate or approve corporate actions contrary to profit maximization.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-05 List three recommendations for making corporations more sensitive to outside concerns and explain the arguments against each reform.*

*Topic: The Corporate Governance Agenda*

39. (p. 69-70) The OECD's Principles of Corporate Governance insists on:

- A. greater immunity power for corporate managers.
- B. lesser transparency within corporate structures.
- C. greater concealment of corporate governance policies to avoid conflicts of interest.
- D. greater protection for whistleblowers.

In the wake of the recent corporate scandals, the OECD's 30 member countries approved a revised version of the organization's Principles of Corporate Governance, offering recommendations on how to rebuild and maintain investor confidence. A new principle was added that advocates greater protection for whistleblowers, including the creation of institutional structures through which they can report corporate wrongdoing.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-05 List three recommendations for making corporations more sensitive to outside concerns and explain the arguments against each reform.*

*Topic: The Corporate Governance Agenda*

40. (p. 70) The new federal sentencing guidelines implemented as part of Sarbanes-Oxley:

- A. apply both to individual board members and the corporation itself.
- B. assign specific oversight responsibilities to directors.**
- C. are designed to give management immunity.
- D. call for special committees of the board to be assigned similar functions.

New federal sentencing guidelines, implemented as part of Sarbanes-Oxley, provide greater incentives for directors to ensure their corporations are not breaking the law. Previous standards for board oversight were too vague to be effective. While they demanded that corporations implement compliance plans, they failed to designate who must have oversight authority. In contrast, the new guidelines assign specific oversight responsibilities to directors in an attempt to curb the largely unrestrained powers accumulated by management over the years.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-05 List three recommendations for making corporations more sensitive to outside concerns and explain the arguments against each reform.*

*Topic: The Corporate Governance Agenda*

41. (p. 71-72) Some of the problems raised by corporate reward structures include:

- A. focusing on long-term rather than short-term profitability.
- B. the interests of managers always being aligned with the long-range interests of the company.
- C. managers being inclined sometimes to act irresponsibly and/or illegally without an eye to legal trouble that may occur in the future.**
- D. firms sacrificing the present to the future thereby promoting long-term allocational inefficiency.

Most of the profit maximizers generally try to maximize only short-term profits. Such firms sacrifice the future to the present and thus do not promote long-term allocational efficiency. The reward structures that exist in many corporations are said to further this tendency. The corporation may be more inclined toward illegal or irresponsible behavior due to the short-term orientation of its managers.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-05 List three recommendations for making corporations more sensitive to outside concerns and explain the arguments against each reform.*

*Topic: The Corporate Governance Agenda*

42. (p. 72) Law may not be up to the task of forcing corporations to engage in ethical behavior for a number of reasons, including that:

- A. it is not clear that all corporations will respond to the threat of financial penalties imposed by law.
- B. judges are likely to be sympathetic to corporations.
- C. Sarbanes-Oxley decreases the likelihood that illegal behavior will be detected.
- D. corporations voluntarily elect to pursue ethical ends.

Law may not be up to the task of forcing corporations to engage in ethical behavior for a number of reasons like: It is not certain that all corporations will respond to the threat of financial penalties. Corporations are powerful forces in determining the content and enforcement of laws. The law can respond only to dangers that are apparent to society as a whole. Sometimes corporations seem to behave irrationally, thereby destroying the deterrent value of legal restrictions.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-06 Make an ethical decision by employing the four-step model for ethical decision making.*

*Topic: Guidelines for Ethical Decision Making*

43. (p. 73) A corporate manager looking for ethical guidance that neither the law nor social norms accounts for must rely on:

- A. a strategy that will maximize profits.
- B. his/her individual conscience.
- C. the advice of other managers.
- D. his/her system of delegation to subordinates.

A corporate manager seeking ethical guidance unavailable from either the law or the marketplace must rely on his/her individual conscience, until corporate critics are able to construct an ethical system capable of earning a broad social consensus.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-06 Make an ethical decision by employing the four-step model for ethical decision making.*

*Topic: Guidelines for Ethical Decision Making*

44. (p. 75) A grease payment:

- A. is one that is made by a company toward foreign governmental officials to secure routine governmental action.
- B. is one that is made by a company to the government for the purpose of obtaining goods-and-services contracts.
- C. is an offer to make a prohibited payment.
- D. is any gift of value to government officials for the purpose of obtaining business.

The FCPA allows a company to pay governmental officials to secure routine governmental action. These payments are called grease payments and these payments are not illegal if the recipient has no discretion in carrying out a governmental function.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-07 After reading a factual situation; identify when (and why) there is (or isn't) a violation of the Foreign Corrupt Practices Act.*

*Topic: Foreign Corrupt Practices Act*

45. (p. 76) The Foreign Corrupt Practices Act (FCPA):

- A. prohibits payments of kickbacks to foreign businesses and their corporate officials.
- B. imposes recordkeeping and internal-controls requirements on any corporation whose shares are privately traded in the United States.
- C. does not require a U.S. parent corporation to make a good faith effort if the parent owns less than a majority interest in the foreign corporation.
- D. deals only with payments to foreign governmental officials.

The FCPA deals only with payments to foreign governmental officials. Thus, payments of kickbacks to foreign businesses and their corporate officials are not prohibited by the FCPA (although they may violate other laws or ethical responsibilities) unless the U.S. firm has knowledge that the payments will be passed on to government officials or other illegal recipients.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-07 After reading a factual situation; identify when (and why) there is (or isn't) a violation of the Foreign Corrupt Practices Act.*

*Topic: Foreign Corrupt Practices Act*

**Short Answer Questions**

46. (p. 54) Explain the difference between deontological and teleological ethical theories. Give an example of each.

Deontological theory focuses on action as or processes, rather than consequences. Teleological theory focuses on the consequences of a decision when deciding if it is ethical. Rights theory is an example of deontological theory. Justice theory, utilitarianism, and profit maximization are examples of teleological ethical schools of thought.

*AACSB: Ethics*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*

47. (p. 56-57) Explain the theory of utilitarianism.

For utilitarians, an ethical decision is one that maximizes utility for society as a whole. An action is only ethical if the benefits to society outweighs their costs. This means that decision makers must sometimes sacrifice their own individual interests if doing so brings about a greater good for society. Many judicial decisions considering public policy appear utilitarian in nature.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-01 Read an ethical argument and identify which of the four predominant ethical theories it characterizes.*

*Topic: Predominant Ethical Theories*



48. (p. 58) Explain the theory of allocational efficiency and describe some of its some of the criticisms levied against the theory.

The theory of allocational efficiency holds that the primary objective of a business corporation is to maximize profits. Many economists hold that this will result in an efficient allocation of society's scarce resources - corporations that most efficiently employ resources will be able to undersell competitors and reap higher profits. As a result, they will be able to outbid less-efficient resource users and will be able to provide consumers a maximum return on their expenditures. Critics of this theory argue that efficient allocation of scarce resources is not society's only goal and that efficiency must sometimes be sacrificed for other social issues. This argument maintains that profit maximization can result in harm to employees, consumers, communities, the environment, and society as a whole.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-02 Make an ethical argument according to each of the predominant ethical theories.*

*Topic: Predominant Ethical Theories*

49. (p. 73) "Which course of action does the most good and the least harm?" This is one of the questions to be asked by managers while making an ethical decision according to the decision-making model by Joseph L. Badaracco Jr. Discuss the nature and purpose of this question.

This question is teleological in nature in that it focuses on the morality of the consequences of the decision. More precisely, it is utilitarian if it encompasses the full range of consequences to society at large. However, it could be consistent with profit maximization if the focus is narrowed to the manager's business organization. As with any sound decision-making model, this question requires a thorough gathering of all facts relevant to the decision. Specifically, this investigation is designed to identify all groups and individuals who will benefit from the various choices available to the decision maker and to measure how great each benefit is likely to be. Simultaneously, it must find out who will be put at risk or otherwise suffer from each course of action, measure the extent of that risk or suffering, and determine if the risk or suffering can be otherwise alleviated. Ultimately, this should assist in discovering which managerial decision is likely to do the most good and least harm.

*AACSB: Ethics*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 03-06 Make an ethical decision by employing the four-step model for ethical decision making.*

*Topic: Guidelines for Ethical Decision Making*

Chapter 03 - Business Ethics and Corporate Social Responsibility

50. (p. 73-74) Suppose you work for a refrigerator manufacturing company that has a factory in a small rural Nebraska town. The refrigerator plant is the town's primary source of income. The company has placed you in charge of investigating the firm's decision to move the factory to Mexico. If the company moves its manufacturing to Mexico, it can produce refrigerators at a much lower cost. Explain what a modern rights theorist would consider under these circumstances.

Student's responses will vary. A modern rights theorist would determine whether anyone's rights are negatively affected by an alternative. If several rights are affected, the rights theorist will determine which right is more important or trumps the other rights, and choose the alternative that respects the most important right. For example, if the alternative is to move to Mexico, the Nebraska employees, among others, are negatively affected. Yet if the manufacturing plant does not move, potential employees in Mexico are harmed. Are these equal rights or is it more important to retain a job one already has than to be deprived of a job one has never had? Are other rights at work here, and how are they ranked? Is it more important to maintain manufacturing production in the firm's home country for national security and trade balance reasons than to provide cheaper refrigerators for the firm's customers? Does the right of all citizens to live in a global economy that spreads wealth worldwide and promotes international harmony prevail over all other rights?

*AACSB: Ethics*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 03-06 Make an ethical decision by employing the four-step model for ethical decision making.*

*Topic: Guidelines for Ethical Decision Making*