

## **Chapter 2**

### **Corporate Social Responsibility and Business Ethics**

#### **True/False Questions**

1. Ethics is the study of what is right and wrong just from an individual's personal moral viewpoint.  
**False; Easy**
2. There are many professional ethics codes because they provide goals that help provide excellent service to customers.  
**False; Easy**
3. What is legal is not necessarily ethical and what is ethical is not necessarily legal.  
**True; Easy**
4. In the Sears Auto Centers case, the loss of goodwill was real, even though the total amount of money could not be clearly accounted for.  
**True; Easy**
5. According to utilitarianism, results, not rules, are emphasized.  
**True; Easy**
6. Act utilitarianism describes what rule or principle, if followed regularly, will create the greatest good.  
**False; Easy**
7. According to the sum total of utilities, we can be satisfied if an act provides the greatest utility to an individual even if it does not provide the greatest utility to society as a whole.  
**False; Easy**
8. According to Immanuel Kant, we should be able to universalize any particular law or action to determine whether it is ethical.  
**True; Easy**
9. If you have a right of free expression, the government has a duty to respect that right, but can put unreasonable limits on it.  
**False; Easy**
10. According to Josephson, if there is no such decision that satisfies the greatest number of core values, one should try to determine which decision delivers the greatest good to the various stakeholders.  
**True; Easy**
11. The agency problem in corporate governance is about how to get managers' interests well aligned with the shareholders' interests.  
**True; Easy**
12. A manager's fiduciary duty refers to resisting hostile takeover bids.

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**False; Easy**

13. Stakeholders can be economically dependent without having ownership.

**True; Easy**

14. According to the series of observations about corporations, ethics, and corporate culture, the best ethics codes are legalistic or compliance driven.

**False; Easy**

15. Conscious capitalism integrates the viewpoints of stakeholder theory and shareholder primacy.

**True; Easy**

### **Multiple Choice Questions**

1. According to utilitarianism, \_\_\_\_\_.

- a. results, not rules, are emphasized
- b. ethical action arises from doing one's duty
- c. duties are defined by rational thought
- d. emphasis is on what is the fair way to distribute goods among a group of people
- e. people give up certain rights to government in exchange for security

**a; Easy**

2. \_\_\_\_\_ describes what rule or principle, if followed regularly, will create the greatest good.

- a. Deontology
- b. Social justice
- c. Rule utilitarianism
- d. Social contract theory
- e. Act utilitarianism

**c; Easy**

3. Which of the following uses the utilitarian test of the greatest good overall?

- a. Project A provides a benefit of \$1 million to a company at an investment of \$10,000. Over a period of 10 years, the company has to reduce its workforce by 50 percent.
- b. Project B provides a benefit of \$1 million to a company at an investment of \$10,000. Over a period of 10 years, the company has to come up with a new technology that will lead to an increase in the cost of living for all the people in the vicinity.
- c. Project C provides a benefit of \$1 million to a company at an investment of \$10,000. Over a period of 10 years, the company has to employ 10,000 more people and cut down on 100 acres of forest area to expand the facility.
- d. Project D provides a benefit of \$100,000 to a company at a cost of \$50,000. Over a period of 10 years, the company has to employ 100 more people.
- e. Project E provides a benefit of \$1 million to a company at an investment of \$10,000. Over a period of 10 years, the company has to acquire two of its competitors, leading to total reduction of its workforce by 30 percent.

**d; Moderate**

4. According to deontology, \_\_\_\_\_.

- a. rules are emphasized instead of results

- b. lying cannot be universalized as it depends on the preexistence of honesty
- c. emphasis is on what is the fair way to distribute goods among a group of people
- d. people give up certain rights to government in exchange of security
- e. social contract can be changes by the participants in a community

**b; Easy**

5. Which of the following is true for the relationship between rights and duties?
- a. If you have a right of free expression, the government has a duty to respect that right but can put unreasonable limits on it.
  - b. Rights and duties exist only between people and their governments.
  - c. Your right in legal terms is only as good as your community's willingness to provide relief outside the legal system.
  - d. You can legally say whatever you want about the U.S. President even if the criticisms are strong and insistent.
  - e. If someone punches you in the nose, your rights as set forth in the negative law of the state have been violated.

**d; Moderate**

6. Which of the following is true according to Aristotle and the Virtue theory?
- a. Aristotle believed that as all activity was aimed at some goal or perceived good, no ranking was required among those goals or goods.
  - b. Aristotle rejected wealth, pleasure, and fame as the distinguishing feature of humans as opposed to other species.
  - c. Happiness is living according to passive use of reason.
  - d. The emphasis on virtue theory has gradually been reducing while more attention is being given to the utilitarian and deontological approaches to ethics.
  - e. Happiness cannot be associated with reason.

**b; Easy**

7. What is the "agency problem" often discussed in corporate governance?
- a. How to get the managers' interests well aligned with the shareholders' interests.
  - b. How to get owners replace nonperforming or underperforming officers and directors.
  - c. How a corporation should maximize profits for its stockholders.
  - d. How to get corporations engage in open and free competition without deception and fraud.
  - e. How to get a corporation to act responsibly toward nonshareholder interests.

**a; Moderate**

8. The manager's fiduciary duty refers to \_\_\_\_.
- a. the duty of managers to maximize returns to employees
  - b. the legally prescribed duties which make their employment possible
  - c. the moral duty managers have to act as responsible agents to the owners
  - d. managers resisting hostile takeover bids
  - e. managers managing by number

**c; Easy**

9. According to limited liability, \_\_\_\_.
- a. smaller pools of capital could be aggregated for larger enterprises
  - b. if the venture fails, shareholders would not lose their investments
  - c. there would be personal liability only

- d. there would only be a loss in the value of the corporate stock
- e. corporations cannot extend beyond the bottom line to maximize profits

**d; Moderate**

10. Which of the following is true with regard to the stakes of various stakeholders?
- a. The value of the organization does not have a direct impact on the wealth of shareholders.
  - b. Stakeholders can be economically dependent without having ownership.
  - c. Government is directly linked to the organizations.
  - d. Local communities do not rely on the corporation for financial well-being.
  - e. The stakeholders not directly linked to the organization do not have interests in making sure that the organization works in a socially responsible manner.

**b; Moderate**

11. According to the stakeholder theory, \_\_\_\_.
- a. having gone along with legal duties, the corporation can ignore any other social obligations
  - b. a corporation's social responsibilities are limited to staying within the law only
  - c. corporations should pay attention only to the bottom line
  - d. a socially responsible corporation is likely to consider the impact of its decision on the shareholders only
  - e. all the stakeholders to a corporate decision deserve some kind of moral consideration

**e; Easy**

12. According to the Sears Auto Center case, which of the following is true?
- a. People would not justify the harm to others as being minimal even to achieve the desired sales quota.
  - b. The customers were treated as ends rather than means.
  - c. The key people were motivated by all the goals for the organization rather than maximizing profits.
  - d. The rip-offs were possible as individual consumers lacked the relevant information.
  - e. People generally choose long-term gains over short-term losses.

**d; Easy**

13. Which of the following is true according to conscious capitalism?
- a. Companies should operate with a holistic or systems view.
  - b. Companies that practice conscious capitalism concentrate only on giving superior results to shareholders.
  - c. People in an organization tend to closely watch what the top managers do and say.
  - d. The manager will often act more in his or her own self-interest than for the corporate interest.
  - e. The best ethics codes are legalistic or compliance driven.

**a; Easy**

14. \_\_\_\_ helps companies embrace the idea that profit and prosperity must go hand in hand with social justice and environmental stewardship.
- a. Social contract
  - b. Stakeholder theory
  - c. Conscious capitalism
  - d. Virtue ethics
  - e. Deontology

**c; Easy**

15. Hobbes and Locke are generally regarded as the preeminent \_\_\_\_\_ theorists.
- a. stakeholder theory
  - b. shareholder primacy
  - c. social contract
  - d. conscious capital
  - e. virtue ethics
- d; Easy**

### **Short Answer Questions**

1. What are the frequent mistakes that people make in applying utilitarianism?  
The mistakes that people make while applying utilitarianism are:
- Failing to come up with lots of options that seem reasonable and then choosing the one that has the greatest benefit for the greatest number.
  - Assuming that the greatest good for you or the company is in fact the greatest good for all.
  - Underestimating the costs of a certain decision to you or your company.
  - Underestimating the cost or harm of a certain decision to someone else or some other group of people.
  - Favoring short-term benefits, even though the long-term costs are greater.
  - Assuming that all values can be reduced to money.

#### **Moderate**

2. What factors led to noted American ethicist Michael Josephson's core value analysis? What are the core values identified by Josephson?

The 14 virtues named by Aristotle seemed old-fashioned from a modern perspective. The issues that emerged were:

- How do we know what a virtue is these days?
- How useful is a list of agreed-upon virtues anyway?
- What do virtues have to do with companies, particularly large ones where various groups and individuals may have little or no contact with other parts of the organization? Also can corporations "have" virtues, as it is not the same as an individual?

These issues led to the identification of a current set of core values by noted American ethicist Michael Josephson, which can be meaningfully applied to a variety for personal and corporate decisions. The core values identified by him are:

- Trustworthiness
- Respect
- Responsibility
- Fairness
- Caring
- Citizenship

#### **Moderate**