Chapter 2

ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

Suggested Additional Assignments

Research

Ask students to bring to class a newspaper, magazine, or internet article that raises ethical issues regarding a US company doing business overseas. They should be prepared to identify the ethical issues and discuss them using the checklist in the chapter.

Interview: Businesspeople on Ethics

Each student (or group of students) can interview a businessperson about ethics dilemmas they have faced. How did they handle the dilemmas? Did they make the right decisions? Do they wish they had made a different choice? How did their decisions impact their companies? Their lives?

Role Play: Rienzi Plaza

Landlord Sheldon Baskin faces a decision. His rent-subsidy contract with the federal government has expired and he can raise rents at Rienzi Plaza by as much as 500 percent. If he raises rents to market rates, then 140 poor and elderly tenants will have to leave. Divide students into groups to represent various stakeholders: the landlord, the tenants, investors, and the government officials who administer the rent-subsidy program. Students should brainstorm the business and ethical issues facing their respective stakeholders, devise negotiating positions, and then engage in an all-stakeholder discussion moderated by the instructor.

Chapter Overview

Chapter Theme

Ethical behavior offers significant advantages. Society as a whole benefits; executives who behave ethically have happier, more fulfilled lives; and unethical behavior can destroy a company and the individuals who engage in such behavior. Many students have never discussed these issues with parents, instructors, or religious leaders. It is useful for an authority figure to say openly that ethical behavior is important.

It is also important for students to examine ethical issues from a variety of points of view and for them to develop their own “Life Principles” – the rules by which they live their own lives.

This chapter will present several important issues:

1. What is the role of business in society?
2. Why bother to act ethically at all?[1]
3. What is the most important consideration when making an ethical decision? To do the right thing for the right reason? Or to do what produces the most favorable results?
4. Is lying ever acceptable?
5. Should you apply your personal ethics in the workplace? Or should you have different ethical values at home and at work?

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[1] Some of the ethics cases and discussion questions featured in this chapter are adapted from *Applied Business Ethics* by Dean A. Bredeson, Cengage Learning, 2011.

6. Is the primary role of corporations to make money? Or do they have responsibilities to workers, communities, customers, and other "stakeholders"?

The Role of Business in Society

A fundamental question in business ethics is: *What is the purpose of a corporation*?

To whom does a corporation owe responsibility – its shareholders? Or, in addition to shareholders, to its stakeholders, which include employees, customers, and the community and countries in which the company operates? Differing viewpoints yield distinct responses to ethical dilemmas, particularly when the law does not require a particular outcome.

Corporate managers face many choices in which the most profitable option is not the most ethical choice. Sometimes, doing the right thing will lead to a loss of profits or even one's job. Conversely, engaging in unethical behavior may increase profits, but may ignore stakeholders, or even be criminal.

Why Be Ethical?

Society as a Whole Benefits from Ethical Behavior

Mutual trust is a vital part of a successful society. No society will survive long if the people are constantly having to protect themselves from dishonesty and the government is compelled to regulate businesses severely to ensure fairness.

People Feel Better When they Behave Ethically

Researchers who study happiness find that people expect material goods to make them happier than they actually do. Almost no matter how much people earn, they feel they would be happier if their income were just a little bit higher. So what does make people happy in the long run? Good relationships, satisfying work, ties to the community—all available at no additional cost.

Profitability is generally not what motivates managers to care about ethics. Managers want to feel good about themselves and the decisions they have made; they want to sleep at night.

Unethical Behavior Can Be Very Costly

Unethical behavior does not always damage a business, but it certainly has the potential of destroying a company overnight. So why take the risk?

Even if unethical behavior does not devastate a business, it can cause other, subtler damage. In one survey, a majority of those questioned said that they had witnessed unethical behavior in their workplace and that this behavior had reduced productivity, job stability, and profits. Unethical behavior in an organization creates a cynical, resentful, and unproductive workforce.

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. Ethical companies tend to have a better reputation, more creative employees, and higher returns than those that engage in wrong-doing.

But if we decide that we want to behave ethically, how do we know what ethical behavior is?

Theories of Ethics

When making ethical decisions, people sometimes focus on the reason for the decision – they want to do what is right. Thus, if they think it is wrong to lie, then they will tell the truth no matter what the consequence. Other times, people think about the outcome of their actions. They will do whatever it takes to achieve the right result, no matter what they have to do to obtain it. This choice – between doing right and getting the right result – has been the subject of much philosophical debate.

Utilitarian Ethics

Under utilitarian ethics, a correct decision is one that tended to maximize overall happiness and minimize overall pain. Risk management and cost-benefit analyses are examples of utilitarian business practices.

The critics of utilitarian thought argue that it is simply not possible to "measure" happiness. Others say that utilitarians simply let the ends justify the means, and that they allow for bad behavior so long as it generates good in the end. A third group argues that utilitarian philosophies err in equating pleasure with ethical behavior, and pain with wrongful behavior.

Deontological Ethics

Many ethicists believe that utilitarians have it all wrong, and that the results are not as important as the reason for which the decision is made. To a deontological thinker, the ends do not justify the means.

The best-known proponent of the deontological model was an eighteenth-century German philosopher Immanuel Kant. He thought that human beings possessed a unique dignity, and that no decision that treated people as commodities could be considered just, even if the decision tended to maximize overall happiness, or profit, or any other quantifiable measure. Most followers of deontological ethics agree that utilitarianism is lacking, and that winning in the end does not automatically make a decision right. Ethical decisions, they argue, are those made for good and moral reasons in the first place, regardless of the outcome.

Rawlsian Justice

John Rawls raised the question of what type of society we would choose if we did not know what our status in the society would be. Would we choose a society that treated everyone *equally* or one that treats everyone *fairly*? What types of jobs would receive the most reward?

Ethical Traps

Ethical traps create great temptation to do what you know to be wrong or fail to do what you know to be right.

Money

Money is a powerful lure because most people believe that they would be happier if only they had more.

Rationalization

A recent study found that more creative people tend to be less ethical. The reason? They are better at rationalizing their bad behavior.

Conformity

Warren Buffett has been quoted as saying, “The five most dangerous words in business may be: ‘Everybody else is doing it.’” Humans are social animals who are often willing to follow the leader, even to a place where they do not really want to go.

Following Orders

When someone in authority issues orders, even to do something clearly wrong, it is very tempting to comply. Fear of punishment, the belief in authority figures, and the ability to rationalize all play a role.

Euphemisms

To “smooth earnings” sounds a lot better than to “cook the books” or plain old “commit fraud.” And “file sharing” sounds friendly and helpful—it has a very different ring than “stealing intellectual property,” which is what it really is. In making ethical decisions, it is important to use accurate terminology. Anything else is just a variation on rationalization.

Lost in a Crowd

When in a group, people are less likely to take responsibility, assuming that someone else will. They tend to check the reactions of others, and if everyone else seems calm, they assume that all is right. Bystanders are much more likely to react if they are alone and have to form an independent judgment.

Blind Spots

People often ignore – sometimes consciously – unethical behavior of others, despite that evidence of such behavior is obvious.

Lying: A Special Case

We are taught from an early age that we must tell the truth. And usually, honesty is the best policy. The consequences of lying can be severe: students are suspended, employees are fired, and witnesses are convicted of perjury. Sometimes the problems are subtler but still significant: a loss of trust, a loss of opportunities.

Applying the Principles

Personal Ethics in the Workplace

Should you behave in the workplace the way you do at home or do you have a separate set of ethics for each part of your life? What if your employees behave badly outside of work – should that affect their employment?

About the Ethics Cases

New to this edition are several Ethics Cases in the book. The discussion questions do not have clear, right or wrong answers. Students should be encouraged to explore the various possibilities, options, and ethical and other ramifications of the situations in order to arrive at their own ethical conclusions.

Ethics cases examined in this chapter:

- Lincoln at War: Examining President Abraham Lincoln’s political efforts to end slavery in the United States.
- Diamonds in the Rough: Examining the practice of accepting gifts from customers in exchange for preferential treatment.
- Train Spotting: Examining ethical obligations to help others in need, or expose those engaged in unethical behavior.
- Truth in Borrowing: Examining the impulse to falsify information in a loan application for monetary gain.
- No Sheen on Sheen: Examining broadcasting television network CBS’s response to actor Charlie Sheen’s bizarre behavior.
- Breathing the Fumes: Examining the ethical obligation of corporations to provide safer products to consumers.
- The Storm After the Storm: Examining a company’s dilemma in choosing whether to focus on its domestic employees or relocate overseas.
- Mickey Weighs In: Examining media conglomerate Disney’s decision to limit advertisements to only those that promote healthy foods.

- A Worm in the Apple: Examining a corporation's responsibility to improve working conditions in overseas factories.
- The Beauty of a Well-Fed Child: Examining cosmetic company Clarins's promotional offer that pledges resources to help feed needy children.

Additional Case: *Conair v. Nexxus et al.*[2]

Facts: Conair Corporation alleged they were libeled by statements contained in two advertisements in trade journals. The defendants are The Nexxus Products Co., Service Publications, Inc. owned by Jheri Redding, publisher of American Hairdresser Salon Owner, and Vance Publishing Corporation, publisher of Modern Salon.

Conair and Defendants are engaged in the manufacture and distribution of hair shampoo, conditioner and hair products. Both parties compete in the styling and packaging of their respective products. They generally attempt to imitate the styling or packaging of a competitor's successful product.

Redding has been a recognized leader and creator of various hair care products, including shampoos, conditioners, rinses and permanent wave solutions for more than five decades.

In 1979, Redding formed the Nexxus Products Company. It is not disputed that **Nexxus** became a highly successful company in the hair products business. Redding's association with it is a significant part of its success.

Hair care distributors and purchasers of Conair and Nexxus competing products were and are confused as to their brand. Upset, Nexxus decided to advertise to "set the record straight" and "to get the truth to the trade so that the beauty salon owners" [Nexxus customers] could be informed judgment if they wanted to use products actually formulated by him.

The advertisements were published in two hair care journals, Modern Salon and American Hairdresser, in December 1983. The advertisements engaged clients in the hair care industry. Both are similar in factual content except for several changes in the American Hairdresser advertisement. The journals were distributed nationwide.

The Modern Salon advertisement states:

"DON'T BE CONNED BY HOT AIR." KNOW YOUR XX'S"

> Are you tired of unscrupulous sales people lying to you? So am I!
>
> I haven't been associated with Jheri Redding Products Company for almost 25 years. Yet, here they are again—using my name—telling you this is my new company—WELL IT ISN'T!
>
> Jheri Redding Products Company is a registered trademark with the U.S. Government. I can't get the Conair Company to stop using it—and I offered to buy the company (Jheri Redding Products) in 1979 and they would not sell.
>
> So... here we go again—another company trying to RIP YOU OFF!
> For the record...
> "Jheri Redding Laboratories" has nothing to do with me.
>
> For the record...
> Conair owns the Jheri Redding Products Company—I DON'T!
>
> For the record...
> My family owns Nexxus Products Company. I formulate the products for Nexxus and ONLY Nexxus.
>
> For the record...

[2] 641 F.Supp. 473 United States District Court, S.D. New York.

> The next time some lying salesperson tells you something about Mr. Jheri Redding, show him this ad... and throw him out.
>
> For the record...
> What can you do about it? Call Lee Rizzuto-he owns Conair and Jheri Redding Products Company- (201) 287–4800 and tell him to stop trying to...
> RIP YOU OFF!!
>
> signed (Jheri Redding)
> President, Director of Research
> **Nexxus** Products Company

Conair contends that both publications are false. They claim that each publication is responsible for each advertisement because the words "conned," "rip off," and "lying," as commonly understood, accuse plaintiffs of stealing and defrauding their customers and the public with unethical conduct. The advertisements claim "accusations of activity on the part of the plaintiffs that is criminal and a gross violation of business ethics."

Defendants filed for summary judgment, alleging that there were no genuine issues of fact. Nexxus claims that the language contained in the advertisements are expressions of opinion that are entitled to absolute immunity from liability under the first amendment. Conair asserts there was no valid basis for the statements in the advertisements.

Issue: Did the words used by Nexxus and the advertisers ("conned," "rip off," and "lying") cause customers and the public to believe that Conair was engaged in a gross violation of business ethics?

Holding: The District Court judge ruled in favor of Nexxus and granted them summary judgment. The Court ruled, *inter alia*, that the phrases "unscrupulous sales people lying," "lying salesperson," "rip you off," and "don't be conned," were rhetorical hyperbole insufficient to establish defamation. The average reader in the industry understood that the references were accusing them of criminal conduct. But the phrases were merely vigorous epithets used by those who considered "themselves unfairly treated and sought to bring what they alleged were the true facts to the readers." Further, the terms "unscrupulous sales people," "lying salesperson," "conned" and "ripped off" were expressions of opinion which did not give rise to a cause of action for libel.

> **Question**: Why did the court rule in favor of Defendants even though they used obvious insults that implied Conair was an unethical company?
>
> **Answer**: Because the two companies were well-known public companies engaged in a publicly known dispute for many years. The standard for public companies in their position is a high standard to meet.
>
> **Question**: Would it be ethical for Conair to behave in the same way towards Nexxus? What if they claim they wanted to defend their reputation so that they wouldn't lose customers?
>
> Answer: Will vary.

Stakeholder Ethics

To whom does a corporation owe a duty?

The Shareholder Model: Noted economist Milton Friedman argued that corporations have two primary responsibilities. First, they must comply with the law. Second, they must make as much money as possible for shareholders.

Companies were legally required to follow the "shareholder model" until the decade after the close of World War II. After American corporations supplied much of what was needed to stop Hitler, many politicians changed their attitudes towards benevolent decisions made by corporations. They softened restrictive language in corporation laws, so that companies could "do good deeds." Such action was not and is still not required, but it is allowed.

The Stakeholder Model: The alternative point of view is that corporations should take care of more than shareholders alone. It is not that the owners of a corporation should be ignored—shareholders are included as one of several groups of stakeholders in a firm. But, a company must also look out for (among others) its employees, its customers, and the communities in which it operates. It may even be that companies have an obligation to broader interests such as "society" or "the environment."

The Organization’s Responsibility to Society

Many products can potentially cause harms to customers and employees. What is the company’s responsibility to those who are unwittingly harmed by its products?

The Organization’s Responsibility to Its Employees

Organizations cannot be successful without good workers. In many circumstances the shareholder and stakeholder models agree that employees should be treated well. Disgruntled workers are likely to be unmotivated and unproductive. But sometimes, looking out for employees may not lead to higher profits. In these cases, does an organization have a duty to "take care" of its workers? The shareholder model says no; the stakeholder model takes the opposite view.

Additional Case: *Barenboim et al. v. Starbucks Corporation*[3]

Facts: Defendant Starbucks Corporation is a Washington-based coffeehouse company that operates hundreds of outlets in New York State. Each Starbucks employs four categories of employees: baristas (entry-level), shift supervisors (minimal supervisory responsibilities), assistant store managers (increased supervisory responsibilities such as interviewing employees) and store managers (highest rank in the workforce structure).

Starbucks maintains a written policy governing the collection, storage and distribution of customer tips. Pursuant to this policy, each Starbucks store places a container at the counter where customers may deposit tips. Once these tip canisters become full, Starbucks requires that they be emptied into a bag and the money is stored in a safe. At the end of each week, the tips are tallied and distributed in cash to two categories of employees—baristas and shift supervisors—in proportion to the number of hours each employee worked. Starbucks does not permit its assistant store managers or store managers to share in the weekly distribution of tips.

In 2008, plaintiffs, two former Starbucks baristas, brought a class action in the United States District Court for the Southern District of New York alleging that Starbucks' policy of including shift supervisors in the tip pools was unlawful. They claimed only baristas should receive tips and not shift supervisors.

Issue: Does New York Law prohibit an employer from distributing pooled tips to shift supervisors who were principally responsible for serving customers, but who also had limited supervisory responsibilities?

Holding: Under the NY Labor Law statute regarding gratuities, employees with limited supervisory responsibilities *may participate* in employer-mandated tip pool.

Related Case: Matamoros et al. v. Starbucks[4]

Facts: Same facts as above, but Starbucks locations are in Massachusetts.

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[3] 2013 WL 3197602 (New York).

[4] 699 F.3d 129, United States Court of Appeals, First Circuit. (Massachusetts).

Issue: Under the Massachusetts Tips Law, which categories of employees should receive tips?
Holding: The Massachusetts court ruled that shift supervisors did not qualify as “wait staff” eligible to participate in tips pools under provisions of Massachusetts Tips Act. In other words, in Massachusetts, shift supervisors could not receive tips from the tip pool. Only baristas could receive tips.

> **Question**: If the shift supervisors work for the same company, are they being treated ethically, if they can receive tips in one state but not another?
> **Question**: Why can shift supervisors receive tips from the tip pool in New York State, but not in Massachusetts even if the employees work for the same company?
> **Answer**: Different states applies different laws.
> **Question**: Are these ethical decisions?
> **Answer**: Answers will vary.

An Organization’s Responsibility to Its Customers

Customers are another group of essential stakeholders. A corporation must gain and retain loyal buyers if it is to stay in business for long. Treating customers well usually increases profits and helps shareholders. But when, if ever, does an organization go too far? If a leader "puts customers first" in a way that significantly diminishes the bottom line, has she acted inappropriately? The shareholder model says yes.

Organization’s Responsibility to Overseas Contract Workers

Industrialization has always been the first stepping stone out of dire poverty—it was in England in centuries past, and it is now in the developing world. Eventually, higher productivity leads to higher wages.
When governments or customers try to force factories in the developing world to pay higher wages, the factory owners typically either relocate to lower wage countries or mechanize, thereby reducing the need for workers. In either case, the local economy suffers. Companies argue that higher wages lead to increased prices, which, in their turn, drive away customers.

Additional Case: *Oconus DOD Employee Rotation Action Group, et al. v. William S. Cohen, Secretary, Department of Defense*[5]

Facts: Civilian employees of the Department of Defense (DOD) with overseas work assignments brought an action to invalidate a proposed DOD policy change. The DOD policy would allegedly make it harder for overseas employees to receive extensions beyond the five-year limitation for overseas work assignments.
In addition, the DOD proposed policy permits local military commands to grant civilian employees extensions beyond five years on a case-by-case basis. The latest revision of the five-year policy limits also transfers authority to grant extensions from the local level to the major command level. Plaintiffs claim that military commands have reduced the number of civilian employees remaining overseas more than five years and have granted extensions beyond five years only in increasingly rare circumstances.
Plaintiffs ask the Court to find that Draft Subchapter 1230 is “arbitrary and capricious.”
Issue: Was the DOD’s policy change “arbitrary and capricious?”
Holding: The Court held that the proposed DOD policy change was not arbitrary and capricious. Defendant's motion for summary judgment is granted.
Plaintiffs argue that Draft Subchapter 1230 resulted in denials of many extensions of overseas tours of duty, causing significant hardship to the professional and personal lives of those affected. However, the court ruled that all changes in the practice of granting extensions of overseas tours of duty have been made pursuant to CPM Subchapter 301.4, not Draft Subchapter 1230. There is no hardship that Plaintiffs can claim under the revised Draft Subchapter 1230 only possibly under Subchapter 301.4.

[5] 140 F.Supp.2d 37, United States District Court, District of Columbia.

Finally, Plaintiffs' injury is "conjectural or hypothetical" because they did not actually suffer the injury. Other overseas employees did. Plaintiffs, therefore, had no claim to make in court. The DOD policy change was not arbitrary and capricious.

Question: Why didn't the Plaintiffs have a claim in court?

Answer: Because they were not affected by the revised policy as they claimed. They *anticipated* that they would likely be affected as other overseas employees were, but could not prove that they were actually affected or injured-in-fact.

Question: Does the DOD have a responsibility to their overseas employees?

Answer: Yes, in general, DOD has a responsibility to its overseas employees. But this case is about a specific law that was not the subject of this lawsuit. Plaintiffs anticipated hardship under the newly drafted rule. Further, the Court ruled that there was no injury to these Plaintiffs. The DOD fulfilled its obligations in this instance. DOD may still be accountable, however, if another, more precise claim is filed.

When the Going Gets Tough

How should an employee respond to an employer that tolerates unethical behavior? Three principal choices: loyalty, exit, and voice.

Corporate Social Responsibility

In addition to examining a company's duty not to cause harm, we must also consider whether companies have a responsibility to contribute positively to the world around them.

Multiple Choice Questions

1. Milton Friedman was a strong believer in the _____________ model. He _______________ argue that a corporate leader's sole obligation is to make money for the company's owners.

   (a) shareholder; did

   (b) shareholder; did not

   (c) stakeholder; did

   (d) stakeholder; did not

   Answer: A. Milton Friedman believed that if shareholder and stakeholder interests conflict, the company should act in the best interest of the shareholders.

2. Which of the following wrote the book, *Utilitarianism,* and believed that moral actions should "generate the greatest good for the greatest number"?

   (a) Milton Friedman

   (b) John Stuart Mill

   (c) Immanuel Kant

   (d) None of the above

   Answer: B.

3. Which of the following believed that the dignity of human beings must be respected, and that the most ethical decisions are made out of a sense of duty or obligation?
   (a) Milton Friedman
   (b) John Stuart Mill
   (c) Immanuel Kant
   (d) None of the above
   Answer: C.

4. Kant believed that:
   (a) It is ethical to tell a lie if necessary to protect an innocent person from great harm.
   (b) It is ethical to tell a lie if the benefit of the lie outweighs the cost.
   (c) It is ethical to make a true, but misleading, statement.
   (d) It is wrong to tell an outright lie or to mislead.
   Answer: D.

5. The following statement is true:
   (a) Most people are honest most of the time.
   (b) Even people who do not believe in God are more likely to behave honestly after reading the Ten Commandments.
   (c) When confronted with wrong-doing, most people immediately recognize what is happening.
   (d) People make their best ethical decisions when in a hurry.
   Answer: B.

Essay Questions

1. The Senate recently released a report on wrongdoing at JP Morgan Chase. It found that bank executives lied to investors and the public. Also, traders, with the knowledge of top management, changed risk limits to facilitate more trading and then violated even these higher limits. Executives revalued the bank's investment portfolio to reduce apparent losses. JP Morgan's internal investigation failed to find this wrongdoing. Into what ethical traps did these JP Morgan employees fall? What options did the executives and traders have for dealing with this wrongdoing?
   Answer: Answers will vary,

2. Located in Bath, Maine, Bath Iron Works builds high tech warships for the Navy. Winning Navy contracts is crucial to the company's success—it means jobs for the community and profits for the shareholders. Navy officials held a meeting at Bath's offices with its executives and those of a competitor to review the specs for an upcoming bid. Both companies desperately wanted to win the contract. After the meeting, a Bath worker realized that one of the Navy officials had left a folder on a chair labeled: "Business Sensitive." It contained information about the competitors' bid information that would be a huge advantage to Bath. William Haggett, the Bath CEO, was notified about the file just as he was walking out the door to give a luncheon speech. What should he do? What pitfalls does he face? What result if he considered Mill, Kant, or the Front Page test?
   Answer: Answers will vary.

3. A group of medical schools conducted a study on very premature babies—those born between 24 and 27 weeks of gestation (instead of the normal 40 weeks). These children face a high risk of blindness and death. The goal of the study was to determine which level of oxygen in a baby's incubator produced the best results. Before enrolling families in the study, the investigators did not tell them that being in the study could increase their child's risk of blindness or death. The study made some important discoveries: the level at which too much oxygen increased the risk of blindness and level at which too little increased the risk of death. What would Mills and Kant say about this decision not to tell the families?

   Answer: Answers will vary.

4. Because Raina processes payroll at her company, she knows how much everyone earns, including the top executives. This information could make for some good gossip, but she has kept it all completely secret. She just found out, however, that her boss knew that it is against company policy for her to do payroll for C-level employees. Yesterday, the CEO went to her boss to confirm that he, the boss, was personally doing the processing for top management. Her boss lied to the CEO and said that he was. Then he begged Raina not to tell the truth if the CEO checked with her. Raina just got a message that the CEO wants to see her. What does she say if he asks about the payroll?

   Answer: Answers will vary.

5. Each year, the sale of Girl Scout cookies is the major fund-raiser for local troops. But because the organization was criticized for promoting such unhealthy food, it introduced a new cookie, the Mango Cremes with Nutrifusion. It promotes this cookie as a vitamin-laden, natural whole food. "A delicious way to get your vitamins." But these vitamins are a minuscule part of the cookie. The rest has more bad saturated fat than an Oreo. The Girl Scouts do much good for many girls. And to do this good, they need to raise money. What would Kant and Mill say? What about the Front Page test? What do you say?

   Answer: Answers will vary.

6. When James Kilts became CEO of Gillette Co., the consumer products giant had been a mainstay of the Boston community for a hundred years. But the organization was going through hard times: Its stock was trading at less than half its peak price and some of its storied brands of razors were wilting under intense competitive pressure. In four short years, Kilts turned Gillette around—strengthening its core brands, cutting jobs, and paying off debt. With its stock up 61%, Kilts had added $20 billion in shareholder value.

   Then suddenly Kilts sold Gillette to Procter & Gamble Co. for $57 billion. So short was Kilts's stay in Boston that he never moved his family from their home in Rye, New York. The deal was sweet for Gillette shareholders—the company's stock price went up 13% in one day. And tasty also for Kilts—his payoff was $153 million, including a $23.9 million reward from P&G for having made the deal and a "change in control" clause in his employment contract that was worth $12.6 million. In addition, P&G agreed to pay him $8 million a year to serve as vice chairman after the merger. When he retires, his pension will be $1.2 million per year. Moreover, two of his top lieutenants were offered payments totaling $57 million.

   Any downside to this deal? Four percent of the Gillette workforce—6,000 employees—were fired. If the payouts to the top three Gillette executives were divided among these 6,000, each unemployed worker would receive $35,000. The loss of this many employees (4,000 of whom lived in New England) had a ripple effect throughout the area economy. Although Gillette shareholders certainly benefited in the short run from the sale, their profit would have been even greater without this $210 million payout to the executives. Moreover, about half the increase in Gillette revenues during the time that Kilts was running the show were attributable to currency fluctuations. A cheaper dollar increased revenue overseas. If the dollar had moved in the opposite direction, there might not have been any increase in revenue. Indeed, for the first two years after Kilts joined Gillette, the stock price declined. It wasn't until the dollar turned down that the stock price improved.

Do CEOs who receive sweeteners have too strong an incentive to sell their companies? Is it unseemly for them to be paid so much when many employees will lose their jobs?

Answer: Answers will vary.

Discussion Questions

1. While waiting in line in a supermarket, you observe a woman trying to pay with food stamps. Under the law, food stamps cannot be used to pay for prepared items so the register would not accept the stamps in payment for a $6 container of chicken noodle soup from the deli counter. The woman explained that she was sick and did not have the energy to cook. She just wanted to go home and go to bed. In general, you agree that this law is reasonable—people on limited budgets should not be buying more expensive prepared food. But the woman is sick. Would it be ethical for you to pay for her chicken soup if she agreed to buy $6 worth of your grocery items?

   Answer: Answers will vary.

2. In Japan, automobile GPS systems come equipped with an option for converting them into televisions so that drivers can watch their favorite shows, yes, while driving. "We can't help but respond to our customers' needs," says a company spokesperson.[6] Although his company does not recommend the practice of watching while driving, he explained that it is the driver's responsibility to make this decision. Is it right to sell a product that could cause great harm to innocent bystanders? Where does the company's responsibility end and the consumer's begin? What would Mill and Kant say?

   Answer: Answers will vary.

3. Darby has been working for 14 months at Holden Associates, a large management consulting firm. She is earning $75,000 a year, which *sounds* good, but does not go very far in New York City. It turns out that her peers at competing firms are typically paid 20% more and receive larger annual bonuses. Darby works about 60 hours a week, more if she is traveling. A number of times she has had to reschedule her vacation or cancel personal plans to meet client deadlines. She hopes to go to business school in a year and has already begun the application process.

   Holden has a policy that permits any employee who works as late as 8:00 p.m. to eat dinner at company expense. The employee can also take a taxi home. Darby is in the habit of staying until 8:00 p.m. every night, whether or not her workload requires it. Then she orders enough food for dinner, with leftovers for lunch the next day. She has managed to cut her grocery bill to virtually nothing. Sometimes she invites her boyfriend to join her for dinner. As a student, he is always hungry and broke. Darby often uses the Holden taxi to take them back to his apartment, although the cab fare is twice as high as to her own place.

[6] Chester Dawson, "Drivers Use Navigation Systems to Tune In," Wall Street Journal, April 23, 2013.

Sometimes Darby stays late to work on her business school applications. Naturally she uses Holden equipment to print out and photocopy the finished applications. Darby has also been known to return catalog purchases through the Holden mailroom on the company dime. Many employees do that and the mailroom staff do not seem to mind.

Is Darby doing anything wrong? What ethical traps is she facing? What would your Life Principle be in this situation?

Answer: Answers will vary.

4. Steve supervises a team of account managers. One night at a company outing, Lawrence, a visiting account manager, made some wildly inappropriate sexual remarks to Maddie, who was on Steve's team. When she told Steve, he was uncertain what to do, so he asked his boss. She was concerned that if Steve took the matter further and Lawrence was fired or even disciplined, her whole area would suffer. Lawrence was one of the best account managers in the region, and everyone was overworked as it was. She told Steve to get Maddie to drop the matter. Just tell her that these things happen, and Lawrence did not mean anything by it. What should Steve do? What ethical traps does he face? What would be your Life Principle in this situation?

   Answer: Answers will vary.

5. David has just spoken with a member of his sales team who has not met her sales goals for some months. She has also missed 30 days of work in the past six months. It turns out that she is in the process of getting a divorce, and her teenage children are reacting very badly. Some of the missed days have been for court, others because the children have refused to go to school. If David's team does not meet its sales goals, no one will get a bonus and his job may be at risk. What should he do?

   Answer: Answers will vary.

6. Many people enjoy rap music at least in part because of its edgy, troublemaking vibe. The problem is that some of this music could cause real trouble, Thus, Ice-T's song "Cop Killer" generated significant controversy when it was released. Among other things, its lyrics celebrated the idea of slitting a policeman's throat. Rick Ross rapped about drugging and raping a woman. Time Warner Inc. did not withdraw Ice T's song, but Reebok fired Ross over his lyrics. One difference: Time Warner was struggling with a $15 billion debt and a depressed stock price. Reebok at first refused to take action but then singing group UltraViolet began circulating an online petition against the song and staged a protest at the main Reebok store in New York.

   What obligation do media companies have to their audience? What factors matter when making a decision about content?

   Answer: Answers will vary.

7. You are negotiating a new labor contract with union officials. The contract covers a plant that has experienced operating losses over the past several years. You want to negotiate concessions from labor to reduce the losses. However, labor is refusing any compromises. You could tell them that, without concessions, the plant will be closed, although that is not true. Is bluffing ethical? Under what circumstances? What would Kant and Mill say? What result under the Front Page test? What is your Life Principle?

   Answer: Answers will vary.

8. Craig Newmark and Jim Buckmaster founded craigslist, the most popular website in the country for classified ads. Rather than maximizing its profits, craigslist instead focused on developing a community among its users. It was a place to find an apartment, a pet, a job, a couch, a date, a babysitter and, it turned out, a prostitute. Most of the ads on craigslist were free, but blatant ads for sex were not. Much of the company’s revenue was from these illegal services. Many of the prostitutes available on craigslist were not independent entrepreneurs; they were women and girls bought and sold against their wishes. To fight sex trafficking, craigslist required credit cards and phone numbers, and it reported any suspicious ads. Law enforcement officials pressured craigslist to close the sex section of its website. But some people argued that blocking these ads was a violation of free speech and would just drive this business more underground where law enforcement officials were less likely to be able to find it. Others said that banning these ads made the business model of selling children for sex less profitable. Does it seem that trafficking women and children was in keeping with the founders’ personal ethics code? What were their options? Could they have had any real impact on this thriving industry? What pitfalls did they face?

   Answer: Answers will vary.

9. You are a president of a small, highly rated, liberal college in California. Many of the dining hall workers are Latino. Some of these workers are trying to organize a union, which would dramatically increase the college’s costs at a time of budget pressure. One of your vice presidents suggests hiring a law firm to review the college’s employment records to make sure all employees are in the United States legally. What would you do?

   Answer: Answers will vary.

10. Many socially responsible funds are now available to investors who want to make ethical choices. For example, the Appleseed Fund avoids tobacco products, alcoholic beverages, gambling, weapons systems, or pornography while the TIAA-CREF Social Choice Equity Premier Fund invests in companies that are “strong stewards of the environment,” devoted to serving local communities and committed to high labor standards. Are socially responsible funds attractive to you? Does it matter if they are less profitable than other alternatives? How much less profitable? Do you now, or will you in the future, use them in saving for your own retirement?

    Answer: Answers will vary.