

Test Bank for Business Ethics 6th Hartman

Corret Answers are located at the end of each chapter.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

- 1) In a general sense, a business stakeholder is one who has made substantial financial investments in the business.
☐ true
☐ false

- 2) In the face of inevitable disagreement, Thrasyarchus's view was that everyone works together to figure the best way forward.
☐ true
☐ false

- 3) Ethics refers to how human beings should live their lives.
☐ true
☐ false

- 4) Norms appeal to certain values that would be promoted or attained by acting in a certain way.
☐ true
☐ false

- 5) Values are the only guidance individuals need to act in ways that are positive or ethical.
☐ true
☐ false

- 6) Ethical values are personal codes of ethics that ensure that a person meets his or her individual standards of well-being.
☐ true
☐ false

- 7) The well-being promoted by ethical values is not a personal and selfish well-being.
☐ true
☐ false

- 8) Societies that value individual freedom legally stipulate codes of personal integrity and common decency to safeguard this freedom.
- ☐ true
 - ☐ false
- 9) Human beings are capable of a wide diversity of motivations and behaviors, ranging from narrow self-interest to wide empathy and altruism, and in this, business is no different.
- ☐ true
 - ☐ false
- 10) Ethical theories are patterns of thinking, or methodologies, to help us decide what to do.
- ☐ true
 - ☐ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

- 11) Which of the following represents the role of philosophical ethics in the field of business ethics?
- A) Providing the fundamental language and categories of ethics
 - B) Understanding how business organizations fit into political context
 - C) Recognizing the mental processes behind why people behave as they do
 - D) Promoting a culture in which legal compliance flourishes
- 12) Identify a true statement about the field of business ethics.
- A) It is rooted in the more general principle of social ethics.
 - B) It is not a multidisciplinary field.
 - C) It is mainly relevant to decision making within an organization.
 - D) It involves decisions at the individual, at the organizational, and at a broader social and governmental level.

- 13) Which of the following is a goal of a business ethics class?
- A) understanding how and why people behave unethically
 - B) doing everything required to satisfy business stakeholders
 - C) separating ordinary ethical consideration from business decisions
 - D) recognizing that business has its own standards of good and bad
- 14) _____ is a theory of human motivation that claims that all human actions are selfish and motivated by self-interest.
- A) Theoretical reasoning
 - B) The stakeholder theory
 - C) Psychological egoism
 - D) The separation thesis
- 15) The _____ asserts that ordinary ethical standards should be kept separate from, and not be used to judge, business decisions because business has its own standards of good and bad.
- A) scientific method
 - B) separation thesis
 - C) concept of theoretical reasoning
 - D) social ethics model
- 16) In a general sense, anyone who affects or is affected by decisions made within a firm can be called a business _____.
- A) nominee
 - B) stakeholder
 - C) analyst
 - D) insider
- 17) Which of the following best describes a business stakeholder?
- A) only the minority shareholders in a business entity
 - B) only those who have acquired significant shares in a firm
 - C) anyone who audits a firm
 - D) anyone who affects or is affected by decisions made within a firm

- 18) Which of the following best describes ethics?
- A) an academic discipline that originated in the early 1900s
 - B) a descriptive approach that provides an account of how and why people do act the way they do
 - C) the study of how human beings should lead their lives
 - D) a descriptive approach such as psychology and sociology
- 19) Which of the following is an approach advocated while teaching ethics?
- A) Teachers should teach ethical dogma to a passive audience.
 - B) Teachers should consider acceptance of customary norms as an adequate ethical perspective.
 - C) Teachers should understand that their role is only to tell the right answers to their students.
 - D) Teachers should challenge students to think for themselves.
- 20) Philosophers often state that ethics is _____, which means that it focuses on people's reasoning about how they should act.
- A) normative
 - B) derivative
 - C) circumstantial
 - D) clinical
- 21) Which of the following observations is true of ethics?
- A) It is descriptive in nature.
 - B) It deals with our reasoning about how we should act.
 - C) It provides an account of how and why people act the way they do.
 - D) It is equivalent to law-abiding behavior.
- 22) Social sciences such as psychology and sociology are different from ethics owing to the fact that they are _____.
- A) normative in nature
 - B) descriptive in nature
 - C) conjectural in nature
 - D) clinical in nature

- 23) _____ seeks an account of the how and why people should act a certain way, rather than how they do act.
- A) Sociology
 - B) Psychology
 - C) Ethics
 - D) Anthropology
- 24) Which of the following is a factor that distinguishes social sciences, such as psychology and sociology, from ethics?
- A) Unlike ethics, these disciplines inquire why people act the way they do.
 - B) Unlike ethics, these disciplines are normative rather than descriptive.
 - C) Unlike ethics, these disciplines provide an account of how people should act.
 - D) Unlike ethics, these disciplines give directives about how people should act.
- 25) The _____ discipline provides an account of how and why people do act the way they do.
- A) descriptive
 - B) supererogatory
 - C) normative
 - D) stipulative
- 26) Individual codes of conduct based on one's value structures regarding how one should live, how one should act, what one should do, and what kind of a person should one be is sometimes referred to as _____.
- A) morality
 - B) independence
 - C) leadership
 - D) rationality
- 27) Morality is the aspect of ethics that we can refer to by the phrase "_____."
- A) personal freedom
 - B) individual rationality
 - C) personal integrity
 - D) persuasive rationality

- 28) Ethics refers to the applications of _____ on which people's decisions are based.
- A) values
 - B) morals
 - C) etiquettes
 - D) norms
- 29) Identify the area of ethics that raises questions about justice, law, civic virtues, and political philosophy.
- A) stipulative ethics
 - B) existential ethics
 - C) virtue ethics
 - D) social ethics
- 30) The aspect of business ethics that examines business institutions from a social rather than an individual perspective is referred to as
- A) decision making for social responsibility.
 - B) corporate cultural responsibility.
 - C) organizational ethical responsibility.
 - D) institutional morality.
- 31) _____ establish the guidelines or standards for determining what one should do, how one should act, and what type of person one should be.
- A) Governments
 - B) Set expectations
 - C) Norms
 - D) Laws
- 32) Which of the following is a true statement about norms?
- A) They are a set of broad and flexible expectations of behavior.
 - B) They are standards of appropriate and proper behavior.
 - C) They do not adhere to any underlying values or beliefs.
 - D) They consist of guidelines for bringing about positive behavioral change.

- 33) The crux of normative ethics is that these disciplines
- A) presuppose some underlying values.
 - B) describe what people do.
 - C) should always involve the study or discipline of ethics.
 - D) branch away from social ethics to personal ethics.
- 34) Which of the following refers to an underlying belief that causes people to choose between plausible courses of action?
- A) norms
 - B) paradigms
 - C) protocols
 - D) values
- 35) Which of the following is true about values?
- A) Values are the highest standards of appropriate and proper behavior.
 - B) Corporate scandals prove the fact that individuals have personal values, but institutions lack values.
 - C) Values cannot lead to unethical results.
 - D) Values are underlying beliefs that cause us to act or to decide in a certain way.
- 36) _____ are beliefs and principles that provide the ultimate guide to a company's decision making.
- A) Mission statements
 - B) Core values
 - C) Historical milestones
 - D) Vision statements
- 37) Business ethics is a multidisciplinary field that takes its roots from the more general disciplines of
- A) philosophy and sociology.
 - B) anthropology.
 - C) psychology.
 - D) political code of conduct.

- 38) Ethics requires that the promotion of human welfare be done
- A) based on the personal opinions of the decision maker.
 - B) based on the level of need of the beneficiaries.
 - C) understanding the religious beliefs of the beneficiary.
 - D) in a manner that is acceptable and reasonable from all relevant points of view.
- 39) Dramatic examples of tyrannical regimes in history demonstrate that
- A) societies valuing freedom welcome laws that require more than the ethical minimum.
 - B) just societies can only be achieved through strict enforcement of ethical codes.
 - C) obedience to the law almost always makes people apathetic toward their ethical duties.
 - D) one's ethical responsibility may run counter to the law.
- 40) Telling organizations that their ethical responsibilities end with obedience to the law
- A) is just inviting more legal regulation.
 - B) is enough to maintain an ethical business environment.
 - C) reduces the frequency of corporate scandals.
 - D) eliminates ambiguity while making personal ethics-related decisions.
- 41) The failure of personal ethics among companies like Enron led to the creation of the
- A) Brooks Act.
 - B) Gramm-Leach-Bliley Act.
 - C) Clinger-Cohen Act.
 - D) Sarbanes-Oxley Act.
- 42) Which of the following observations is true?
- A) Obedience to the law is sufficient to fulfill one's ethical duties.
 - B) The law is very effective at promoting "goods."
 - C) The law cannot anticipate every new dilemma that businesses might face.
 - D) An individual's ethical responsibility can never run counter to the law.

- 43) Which of the following is a true statement about the Americans with Disabilities Act (ADA)?
- A) What counts as a disability remains ambiguous under the law.
 - B) The law lays out clear-cut rules for reasonable accommodation.
 - C) The law has not been put into practice till date.
 - D) Mental disabilities have been left out of the purview of the law.
- 44) A process to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives is called _____.
- A) risk assessment
 - B) practical reasoning
 - C) theoretical reasoning
 - D) risk pooling
- 45) Practical reasoning is reasoning about
- A) what we should think.
 - B) what we should do.
 - C) what we should believe.
 - D) what we should share.
- 46) Reasoning about what should be done is known as _____ reasoning.
- A) practical
 - B) objective
 - C) theoretical
 - D) predictive
- 47) Theoretical reasoning is reasoning about
- A) what we actually do.
 - B) what we should do.
 - C) what we should believe.
 - D) what we should implement.

- 48) _____ reasoning is reasoning about what we should believe.
- A) Practical
 - B) Abstract
 - C) Theoretical
 - D) Descriptive
- 49) Which of the following is the pursuit of the highest standard for what we should believe?
- A) theoretical reason
 - B) notional reason
 - C) emotional reason
 - D) practical reason
- 50) Which of the following is the great arbiter of truth according to the tradition of theoretical reason?
- A) religion
 - B) customs
 - C) science
 - D) norms
- 51) Which of the following can be thought of as the answer to the fundamental questions of theoretical reason?
- A) the scientific method
 - B) the practical approach
 - C) the contingency approach
 - D) the normative model

FILL IN THE BLANK. Write the word or phrase that best completes each statement or answers the question.

- 52) A _____ is anyone affected, for better or for worse, by the decisions made within a particular firm.
- 53) _____ is a theory of human motivation that claims that all human actions are selfish and motivated by self-interest.

- 54) The _____ asserts that ordinary ethical standards should be kept distinct from, and not be used to judge, business decisions because business has its own standards of good and bad.
- 55) A process to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives is called _____.
- 56) As a discipline, _____ deals with norms and standards of appropriate and proper behavior.
- 57) _____ is the aspect of ethics that is referred to by the phrase “personal integrity.”
- 58) Normative disciplines presuppose some underlying _____.
- 59) Acts and decisions that seek to promote human welfare are based on _____.
- 60) The aspect of business integrity that focuses on examining business institutions from a collective rather than from an individual perspective falls under the area of _____.
- 61) _____ reasoning is reasoning about what we should believe.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 62) Explain how the study of ethics was viewed until recently, and what kind of shift in focus has occurred post the scandals.

63) Describe the advantages associated with ethical decision making.

64) Discuss the hesitation (that may be justified) associated with teaching ethics. Explain briefly how the authors of this text believe that ethics can be taught constructively in a class.

65) Define ethics. How is it different from social sciences such as psychology and sociology?

66) Differentiate the concepts of morality and social ethics.

67) Why is “ethics” considered a normative discipline?

68) Define values and discuss the element of corporate culture in detail.

69) Describe the two elements of ethical values.

70) Discuss the impact of maintaining that holding to the law is sufficient to fulfill one's ethical duties, and what it says about the law itself.

71) Explain the difficulties associated with telling a business that its ethical responsibilities end with obedience to the law.

72) Discuss the importance of precedents for most laws concerning business.

73) Define risk assessment.

74) While using the risk assessment model, what might the decision makers include in their assessment before taking action?

75) Differentiate between practical reasoning and theoretical reasoning.

Answer Key

Test name: Chapter 01

- 1) FALSE
- 2) FALSE
- 3) TRUE
- 4) TRUE
- 5) FALSE
- 6) FALSE
- 7) TRUE
- 8) FALSE
- 9) TRUE
- 10) TRUE
- 11) A
- 12) D
- 13) A
- 14) C
- 15) B
- 16) B
- 17) D
- 18) C
- 19) D
- 20) A
- 21) B
- 22) B
- 23) C
- 24) A
- 25) A
- 26) A
- 27) C
- 28) B
- 29) D
- 30) A
- 31) C
- 32) B
- 33) A
- 34) D
- 35) D
- 36) B
- 37) A

- 38) D
- 39) D
- 40) A
- 41) D
- 42) C
- 43) A
- 44) A
- 45) B
- 46) A
- 47) C
- 48) C
- 49) A
- 50) C
- 51) A
- 52) stakeholder
- 53) Psychological egoism
- 54) separation thesis
- 55) risk assessment
- 56) normative ethics
- 57) Morality
- 58) values
- 59) ethical values
- 60) social ethics
- 61) Theoretical
- 62) Essay
- 63) Essay
- 64) Essay
- 65) Essay
- 66) Essay
- 67) Essay
- 68) Essay
- 69) Essay
- 70) Essay
- 71) Essay
- 72) Essay
- 73) Essay
- 74) Essay
- 75) Essay

IM Chapter 1: Ethics and Business

Chapter Objectives

After reading this chapter, you will be able to:

1. Explain three levels at which ethical decisions get made in business.
2. Explain the nature of business ethics as an academic discipline.
3. Explain why ethics is important in the business environment.
4. Explain why ethical responsibilities go beyond legal compliance.
5. Distinguish the ethics of personal integrity from the ethics of social responsibility.
6. Distinguish ethical norms and values from other business-related norms and values.
7. Describe ethical decision making as a form of practical reasoning.

Opening Decision Point—Wells Fargo and Facebook

The Wells Fargo and Facebook cases can be used to introduce a range of topics that will emerge throughout this book. The case involves decision making at a number of levels, from individual entry-level employees (like many of our students), to branch managers, to mid-level management, senior executives, and the board of directors. The cases also include decisions individuals directly involved in wrongdoing as well as individuals who blew the whistle on wrongdoing. A good discussion can be generated by asking students to assign responsibility, both in terms of who is at fault (who is accountable?) and what could be one to prevent it from reoccurring (what caused it?).

We have added a new short case description involving Facebook to this Decision Point for several reasons. First, Facebook helps bring out the broader social and political dimensions of ethical decision making more directly. Students will see the difficulty in separating business decisions from broader social and ethical decisions. Second, the Facebook case also involves some examples of insiders who called out unethical activities. Despite the pressures in all organizations to conform, it is possible for individuals to stand up for their ethical beliefs. Finally, Facebook and social media can be a more relevant example for many students than banking.

These discussions can easily lead into the decision-making model that will be introduced later in the chapter. What facts would be helpful to make these judgments of responsibility? What facts would change your decision? What facts confirmed your initial thoughts? Who are the stakeholders involved, ranging from entry-level employees, to customers, to stockholders, to competitors. What stake, exactly, do these groups have in this case? How were they harmed? How, if at all, were their interests represented in the process?

These are also good cases with which to introduce the topics of corporate culture and leadership. How were the decisions made by individuals influenced by the surrounding culture, and how did that culture emerge at Wells Fargo? At Facebook? How free were employees at every level, including senior executives, to diverge from the prevalent culture? How might that institutional culture be changed? Who is responsible for institutional decisions? Which institutional policies and practices enabled this scandal? How might they be changed to avoid a reoccurrence?

Another topic that can be introduced involves professional responsibilities of bankers and financial professionals at Wells, and IT specialists at Facebook. This discussion can be helpful in setting the stage for Chapter 5 and the general topic of corporate social responsibility. A discussion of fiduciary duties can introduce several important questions. What responsibilities do managers, perhaps especially senior executives, have to stockholders? How might these responsibilities conflict with their responsibilities as financial professionals? Facebook case also can focus discussion on questions of the social and political responsibilities of both individuals and corporations.

Finally, this case can also introduce the question of government regulation within a market economy. What is the proper role for government agencies, both in terms offsetting standards to prevent misconduct and in enforcing sanctions after the fact? How does this influence the “free market” system? In what sense are corporations “citizens” of the countries in which they operate, and what responsibilities does that imply?

I. Introduction: Getting Comfortable with the Topic

It is not uncommon for students to enter a business ethics class with some degree of doubt, confusion, and apprehension about the topic. This opening chapter aims to relieve those concerns by introducing business ethics as an unavoidable and nonthreatening part of business (and life).

The topic is introduced by reviewing some of the past and recent well-known scandals but also pointing out some well-known examples of commendable corporate ethics. It can be worthwhile to remind students of best case examples as a means to reminding them that business ethics does not assume that only the bad cases deserve attention.

We also remind students that business ethics is not limited to the type of major corporate decisions with dramatic social consequences. At some point every worker, and certainly everyone in a management role, will be faced with an issue that will require ethical decision making. We have also expanded this section to include a broader discussion of the role ethics plays in many life experiences outside as well as inside business.

This opening section identifies five general goals for a business ethics class:

1. Develop the knowledge base and skills needed to identify ethical issues.
2. Understand how and why people behave unethically.
3. Decide how we should act, what we should do, and the type of person we should be as individuals.
4. Create ethical organizations.
5. Think through the social, economic, and political policies that we should support as citizens.

II. Business Ethics as Ethical Decision making

We moved this section up to an early point in this chapter so that students can be more directly and immediately introduced to WHAT ethics involves and what it is. Some reviewers suggested that the previous organization spent too much time talking ABOUT ethics, before actually saying what it is.

- a. **So what is the point of a business ethics course?** Our general approach throughout this text is to explain ethics as a middle ground between those who understand ethics in absolutist and certain terms, and those who deny any reasonable or objective basis for ethical claims. This text neither preaches dogmatic ethical truths nor abandons hope for ethical progress and rationality.
- b. **We include a discussion of Socrates and Thrasymachus.** Rational decision making and persuasion versus imposing one's view on others. While students might initially see this as an aside, the crucial point is worth emphasizing—perhaps more so in light of recent U.S. political debates. This text (like Socrates) does assume that humans can be rational enough to settle disagreements by thinking them through and finding rational conclusions that bind all people. In any society in which people disagree (and where would that not be?), the alternative to rational discussion, persuasion, and ultimately an agreement is power/force (Thrasymachus).
 - i. As the title of this book suggests, our approach to business ethics will **emphasize *ethical decision making***.
 - ii. **Historical Context:** On one hand, *ethics* refers to an academic discipline with a centuries old history and we might expect knowledge about this history to be among the primary goals of a class in ethics.
 - 1. Thus, in an ethics course, students might be expected to learn about the great ethicists of history such as Aristotle, John Stuart Mill, and Immanuel Kant. As happens in many other courses, this approach to ethics would focus on the ***informational content*** of the class.

Chapter Objective 2 Addressed Below

- iii. **Ethical Behavior/Normative Content:** Yet, according to some observers, learning about ethical theories and gaining knowledge about the history of ethics is beside the point.
 - 1. Many people, ranging from businesses looking to hire college graduates to business students and teachers themselves, expect an ethics class to address **ethical behavior**, not just information and knowledge about ethics.
 - 2. After all, should not an ethics class help prevent future ethical scandals? *Ethics* refers not only to an academic discipline but to that arena of human life studied by this academic discipline, namely, **how human beings properly should live their lives**.
- iv. **The Role of Influence...** Yet, there is an appropriate caution about influencing behavior within a classroom.
 - 1. Part of this hesitation involves the potential for abuse; expecting teachers to influence behavior may be viewed as permission for teachers to impose their own views on students.
 - 2. Many believe that teachers should remain value-neutral in the classroom and respect a student's own views.

3. Another part of this concern is that there can be a narrow line between motivating students and manipulating students.
 - a. There are many ways to influence someone's behavior, including threats, guilt, pressure, bullying, and intimidation.
 - b. Some of the executives involved in the worst of the recent corporate scandals were very good at using some of these means to motivate the people who worked for them.
 4. Presumably, none of these approaches belong in a college classroom, and especially not in an ethical classroom. [**Teaching Note:** This would be a good opportunity to discuss appropriate and inappropriate means for getting students to complete their homework assignments. What teaching methods respect students? Which disrespect them? Why? Contrast this to managerial influence: Are there some inappropriate ways for managers to get workers to complete a task?]
 5. But not all forms of influencing behavior raise such concerns. There is a major difference between manipulating someone and persuading someone, between threats and reasons. This textbook resolves the tension between knowledge and behavior by emphasizing ethical judgment, ethical deliberation, and ethical decision making.
 6. We agree with those who believe that an ethics class should strive to produce more ethical behavior among the students who enroll.
 - a. But we believe that the only academically and ethically legitimate way to do this is through careful and reasoned decision making.
 - b. Our fundamental assumption is that a process of rational decision making, a process that involves careful thought and deliberation, can and will result in behavior that is both more reasonable and more ethical.
- c. **Role of a Course:** Teaching ethics must, on this view, involve **students *thinking for themselves***.
- d. **Ethics as Practical Reason:** This section is an introduction to a topic that will be explore in more depth in the next chapter as we develop the decision-making model.
- Practical Reason:** We have described ethics as practical and normative, having to do with our actions, choices, decisions, and reasoning about how we should act. Ethics is therefore a vital element of practical reasoning and is distinguished from theoretical reasoning.

Theoretical reasoning is the pursuit of truth, which is the highest standard for what we should believe. The Scientific Method provides one model of theoretical reason. According to this tradition, science is the great arbiter of the facts and truth. The scientific method can be thought of as the answer to the fundamental questions of theoretical reason: What should we believe?

The question arises, is there a comparable methodology or procedure for deciding what we should do and how we should act?

There are guidelines that can provide direction and criteria for decisions that are more or less reasonable and responsible. Ethical theories are patterns of thinking, or methodologies, to help us decide what to do.

Practical reason is reasoning about what we should do. It involves walking through a series of steps in making a decision about what to do, in order to make a reasonable decision.

III. Business Ethics as Personal Integrity and Social Responsibility—We moved this section up to an earlier spot in this chapter to allow a continued discussion and exploration of the goals and nature of ethical reasoning. A major theme of this section is to help students understand that ethics involves decisions made at both an individual and an organizational level. It can be helpful to ask students to reflect on the types of questions that are asked in other business courses in such fields as Management or Organizational Behavior/Studies.

a. Social circumstances are another element of our environment that impact our ethical decision making and behavior.

i. Social Context: An individual may have carefully thought through a situation and have decided what is right, and then may be motivated to act accordingly. But the corporate or social context surrounding the individual may create serious barriers to behave in that way.

1. As individuals, we need to recognize that our social environment will greatly influence the range of options that are open to us and can significantly influence our behavior.
2. People who are otherwise quite decent can, under the wrong circumstances, engage in unethical behavior while less ethically motivated individuals can, in the right circumstances, do the “right thing.”

Decision Point Management and Ethics

We introduce this Decision Point early as a simple example to help students see more directly and immediately how ethics will have practical consequences in business.

Imagine that you are examining this chapter’s opening scenario in one of your classes on Organizational Behavior or Managerial Finance. What advice would you offer to Sodexo? What judgment would you make about this case from a financial perspective? After offering your analysis and recommendations, reflect on your own thinking and describe what values underlie those recommendations.

- What facts would help you make your decision?
- Does the scenario raise values that are particular to managers?

- What stakeholders should be involved in your advice?
- What values do you rely on in offering your advice?

b. Ethical Leadership:

- i. Business leaders therefore have a responsibility for the business environment that they create; what we shall later refer to this environment as the “corporate culture.” The environment can therefore strongly encourage or discourage ethical behavior.
- ii. Ethical business leadership is precisely this skill: to create the circumstances within which good people are able to do good, and bad people are prevented from doing bad.
- iii. The Enron case provides an example. The Decision Point included below (taken from a previous edition of this book) described the case of Sherron Watkins, an Enron vice president. She seemed to understand fully the corruption and deception that was occurring within the company, and she took some small steps to address the problems within the Enron environment. But when it became clear that her boss might use her concerns against her, she backed off. The same circumstances were involved in connection with some of the Arthur Andersen auditors. When some individuals raised concerns about Enron’s accounting practices, their supervisors pointed out that the \$100 million annual revenues generated by the Enron account provided good reasons to back off. The “Sherron Watkins” Decision Point, below, exemplifies the culture present at Enron during the heat of its downfall and this example might be used as a class discussion topic or even a paper assignment topic.

Chapter Objective 3 Addressed Below

- c. **The Ethical Question:** Ethics involves what is perhaps the most monumental question any human being can ask: **How *should* we live?**
 - i. Ethics is, in this sense, *practical*, having to do with how we act, choose, behave, and do things.
 - ii. Philosophers often emphasize that ethics is **normative**, which means that it deals with our reasoning about how we *should* act.
 - iii. Social sciences such as psychology and sociology also examine human decision making and actions, but these sciences are **descriptive** rather than normative. When we say that they are descriptive, we refer to the fact that they provide an account of how and why people *do* act the way they do; as a normative discipline, ethics seeks an account of how and why people *should* act, rather than how they *do* act.
- d. **How should we live?** This fundamental question of ethics can be interpreted in two ways.

- i. “We” can mean each one of us individually, or it might mean all of us collectively.
 1. In the first sense, this is a question about how I should live my life, how I should act, what I should do, and what kind of person I should be. This meaning of ethics is based on our value structures, defined by our moral systems; and, therefore, it is sometimes referred to as morality. It is the aspect of ethics that we refer to by the phrase “personal integrity.” If morals refer to the underlying values on which our decisions are based, ethics refers to the applications of those morals to the decisions themselves.
 2. In the second sense, “How should we live?” refers to how we live together in a community. This is a question about how a society and social institutions such as corporations ought to be structured and about how we ought to live together. This area is sometimes referred to as social ethics and it raises questions of justice, public policy, law, civic virtues, organizational structure, and political philosophy.
 3. In this sense, business ethics is concerned with how business institutions ought to be structured, about whether they have a responsibility to the greater society (corporate social responsibility or CSR), about making decisions that will impact many people other than the individual decision maker.
 4. We refer to this broader social aspect of ethics as decision making for social responsibility.
 5. **Teaching Note:** The following hypothetical case can be used to highlight the distinction between the ethics of individual integrity and the social justice. Imagine an HR manager who is hiring two employees. Assume that the top two candidates, one male and one female, are equally qualified and that the HR manager wishes to hire both. Assume that the HR manager himself will get evaluated, in part, by how well he controls compensation expenses. As a result, he has both a professional and personal responsibility to pay the lowest salary that is necessary to get the candidate to accept the position. At the last interview, the manager asks each about their salary expectations. Imagine that the female candidate asks for a salary that is substantially below what the male asks. He knows that the male may not accept the job offer at a lower salary and knows that the female is willing to accept the lower offer. What responsibility does the HR manager have for paying equally qualified employees? If the manager pays the female less, would you characterize him as sexist? Is this decision unfair workplace discrimination? Imagine now that the HR manager is a woman? Would this change your judgment? A good discussion can follow on how particular social contexts can shape decisions and,

despite the best intentions of individuals involved, result in socially undesirable consequences.

- e. **Ethical Decision Making:** Within a business setting, individuals will constantly be asked to make decisions affecting both their own *personal integrity* and their *social responsibilities*.
- i. Each decision made by a business manager involves not only a personal decision but also a decision on behalf of, and in the name of, an organization that exists within a particular social, legal, and political environment.
 - ii. Whatever decision business managers make, they will have taken a stand on an ethical issue, at least implicitly.
 - iii. The actions each one of us takes and the lives we lead give very practical and unavoidable answers to fundamental ethical questions.

Decision Point

Ethics After an Oil Spill

The following answers are lengthier than those that follow in the rest of this Instructors' Manual in order to give a bit of guidance at the outset.

Ethics After an Oil Spill

In 2011, an oil pipeline owned by the energy company Enbridge sprung a leak near the town of Wrigley in the Canadian Northwest Territory. The citizens of Wrigley maintain a traditional style of life that depends on the health of local forests and waterways. Environmental protection is not just a question of principle for the people of Wrigley; it is a matter of survival. Enbridge devised a detailed cleanup plan—a complex technical document 600 pages long. When the company offered \$5,000 so that the community could hire its own experts to evaluate the plan, locals were offended by such a tiny payment. This was a significant blow to Enbridge's image, coming shortly after another Enbridge pipeline ruptured in Michigan. And at the same time, Enbridge was in the midst of trying to win approval for a new project in the face of opposition from environmental groups.

The company faced a number of difficult issues in the wake of the Wrigley spill. First, Enbridge had to clean up the spilled oil. Then, they had to consider the issue of remediation—the restoration the polluted land back to something like its original state. Further, there was the question of compensation to the local community for the pollution and loss of use of some of their traditional hunting grounds. All of this was set against a backdrop of controversy surrounding the impact that oil pipelines have on the lands and communities through which they run.

What do you think motivated the company's decision to offer the community \$5,000 to hire its own expert? Why do you think the community was insulted? If you were the company's local manager, what would you have done?

This case provides an opportunity to accomplish several introductory goals. In the most general terms, this discussion helps in exploring with the students prior to Chapters 2 and 3 the

source/origins of our values or strongly held beliefs, what encourages us to make the decisions that we make, the “whys” behind our choices.

One can use the case as a means for discussing decision making: What options are available to Enbridge? How would it decide? What factors are relevant to the decision? What is a rational decision? Ask students to take various points of view—Enbridge, its financial advisor, the city’s mayor, Wrigley’s citizens—and contrast likely alternative decisions.

One can also use the case to subtly introduce various perspectives on ethics: What is the difference between doing something ethically required and doing something heroic or charitable? On what grounds do you reach your own opinion about Enbridge? What type of company is it, and what is its corporate character?

This case also allows for an introduction to the basic debate about corporate social responsibility: What responsibilities does a company have to the community in which it is located? For whose benefit ought a company be operated? Enbridge is a publicly traded corporation. How might the factors considered in its decision making change if it were privately controlled?

What facts would be helpful to you, as an outsider, in evaluating the company’s behavior after the spill?

It would be helpful to know the business’ financial situation before the oil spill, the company’s environmental record prior to the spill, any prior relationship the company had to Wrigley, what alternatives were available and how feasible each would be. In addition, did the firm have a mission statement, or any other obligations to Wrigley or others that the students believe should be upheld? What are other possible sources of “obligations?”

What values are involved in this situation? How would Enbridge answer that question, internally? How would the people of Wrigley answer that question, if asked?

There are a number of different ethical values involved in this situation. Challenge the students to explore their origins and examine what Enbridge should consider as the responsible party in the spill, what are its contractual obligations, its social responsibilities, its rights/duties and the rights/duties of the people of Wrigley. What is the fair thing to do, what is the loyal and kind thing to do in this situation, and what might a “virtuous” company do under these circumstances? What is reasonable for the people of Wrigley to expect from Enbridge?

Did Enbridge have obligations that went beyond cleaning up the area directly affected by the spill from the company’s pipeline? Were they obligated to offer the \$5,000? Consider the suggestion made by a member of the community that Enbridge should donate money to build a swimming pool or hockey arena for local kids. Would a donation of this kind help to satisfy the company’s obligations to the community?

Enbridge’s actions were considered insulting by the community, even though it had no contractual or other legal obligation beyond the cleanup laid out in its plan. The spirit of Enbridge’s offer was not taken as sufficient to address the community’s concerns about the oil spill. Ask students to hypothesize about the reasons for the community’s dissatisfaction and to brainstorm about actions the company might have taken to satisfy these concerns. If they were Enbridge managers faced with the task of recommending such actions to the company’s board, how would they make their case?

- f. **Application of Ethical Decision Making:** Consider two approaches to the above Enbridge scenario in the Decision Point, “Ethics After an Oil Spill.”
- i. The *more social-scientific approach* common in management or business administration classes would examine the decision by exploring the factors that led to one decision rather than another or by asking why the manager acted in the way that he did?
 - ii. A *second approach* to Enbridge steps back from the facts of the situation to ask what *should* the manager do, what *rights and responsibilities* are involved? What *good* will come from this situation? Is Enbridge being *fair, just, virtuous, kind, loyal, trustworthy*?
 - iii. This *normative approach to business* is at the center of business ethics. Ethical decision making involves the basic categories, concepts, and language of ethics: *shoulds, oughts, rights and responsibilities, goodness, fairness, justice, virtue, kindness, loyalty, trustworthiness, and honesty*.

Chapter Objective 4 Addressed Below

- g. **Ethics as Normative:** To say that ethics is a *normative* discipline is to say that it deals with norms, those standards of appropriate and proper (or “normal”) behavior.
- i. Norms establish the guidelines or standards for determining what we should do, how we should act, and what type of person we should be.
 - ii. Norms appeal to certain values that would be promoted or attained by acting in a certain way.
 - iii. Normative disciplines presuppose some underlying values.
- h. **What are Values?** We can think of *values* as the underlying beliefs that incline us to act or to decide one way rather than another.
- i. A company’s *core values* are those beliefs and principles that provide the ultimate guide to its decision making.
 - ii. We can recognize many different types of values: financial, religious, legal, historical, nutritional, political, scientific, and aesthetic. Individuals can have their own personal values, and importantly, institutions also have values.
 - iii. Talk of a corporation’s *culture* is a way of saying that a corporation has a set of identifiable values that establish the expectations for what is “normal” within that firm.
 - iv. These norms guide employees, implicitly more often than not, to behave in ways that the firm values and finds worthy.
 - v. One important implication of this guidance, of course, is that an individual’s or a corporation’s set of values may lead to either ethical or unethical result. The corporate culture at Enron, for example, seems to have been committed

to pushing the envelope of legality as far as possible in order to get away with as much as possible in pursuit of as much money as possible.

- vi. One way to distinguish these various types of values is in terms of the *ends* they serve.
- i. **Ethics Values versus Other Values:** How are ethical values to be distinguished from these other types of values?
 - i. ***Ethical values serve the ends of human well-being.*** Acts and decisions that seek to promote human welfare are acts and decisions based on ethical values. Controversy may arise when we try to specify more precisely that which is involved in human well-being.
 - ii. The well-being promoted by ethical values is not a personal and selfish well-being. After all, the Enron and Madoff scandals resulted from many individuals seeking to promote their own well-being.
 - iii. Ethics requires that the promotion of human well-being be done impartially. Ethical values are those beliefs and principles that impartially promote human well-being.

Decision Point: Mark Zuckerberg: A Good Leader

This Decision Point can be used to help students understand the ambiguities involved in describing someone as a “good” leader. By most accounts, Zuckerberg has been a very successful and effective leader of Facebook (Meta). But the question of his being a good and ETHICAL leader remains open.

IV. Why Study Business Ethics

- a. The “**Separation thesis**” described a common which holds that ethical standards are separate from the standards that apply in business activities. This view holds that business has its own rules that govern how the game is played and, therefore, business is exempt from ordinary ethical judgments.
- b. This **separation thesis is represented prominently in Milton Freidman’s famous essay, “The Social Responsibility of Business is to Increase its profits.”** This very common perspective can be seen in many cases discussed throughout this text and should be contrasted with the “stakeholder theory” described in Chapter 5.
- c. **Relationship between economic and moral values:** How should we conceive of the relationship between business and market activity, on the one hand, and ethical concerns, on the other? This is not a new question, but one that can be found since the very dawn of modern capitalism.

- i. The relationship between Adam Smith's two books, *The Wealth of Nations* and *The Theory of Moral Sentiments*, can be seen as representing this question.
- ii. The issue of the relationship of economic and moral values is addressed in the study of business ethics.

Reality Check: Psychological Egoism provides a brief philosophical refutation of a common assumption that underlies much of the skepticism about business ethics, including the separation thesis. That assumption is the view that all human behavior is motivated by selfish interest, otherwise known as "psychological egoism." This view is implicit in much thinking about the separation thesis and is often, mistakenly, attributed to Adam Smith.

- d. **As recently as the mid-1990s**, articles in such major publications as *The Wall Street Journal*, the *Harvard Business Review*, and *U.S. News and World Report* questioned the legitimacy and value of teaching classes in business ethics.
- e. **Leaders realize that they can no longer afford this approach** in contemporary business. The direct costs of unethical business practice are more visible today than perhaps they have ever been before.
- f. **The first decade of the new millennium** was riddled with highly publicized corporate scandals, the effects of which did not escape people of any social or income class. Moreover, we saw the economy begin a downward spiral into one of the largest financial crises of the last 80 years.
- g. **These lending and trading efforts encouraged bad debt to appreciate** beyond levels that the market could bear. The inevitable correction caused real estate values in most markets to decline sharply, domestic credit markets to freeze, and the federal government to intervene with a rescue package.
- h. **Economic turmoil incites misconduct**; there is a significant *bump* in observed workplace misconduct during times of economic challenges. Some money-saving strategies deployed by struggling companies, such as compensation/benefit reductions and hiring freezes, have been found to increase misconduct by more than 35%.

Chapter Objective 1 Addressed Below

- i. **To understand the origins of the shift** from *whether* ethics or values should play a role in business decisions to the almost frantic search for *how* most effectively (and quickly!) to do it, consider the range of people who were harmed by the Wells Fargo scheme: Customers, employees, investors, competitors, and the communities in which these people live.
- j. **Expansion of ethically responsible business decision making**: Ethically responsible business decision making must move beyond a narrow concern with

stockholders, and consider the impact that decisions will have on a wide range of stakeholders. In a general sense, a business *stakeholder* will be anyone affected, for better or worse, by decisions made within the firm.

- k. **Reasons to be concerned with ethical issues:** Beyond specific legal obligations, contemporary business managers have many other reasons to be concerned with ethical issues.
 - i. Unethical behavior not only creates legal risks for a business, it creates financial and marketing risks as well.
 - ii. Managing these risks requires managers and executives to remain vigilant about their company's ethics.
 - iii. A firm's ethical reputation can provide a competitive advantage, or disadvantage, in the marketplace and with customers, suppliers, and employees.
 - iv. Managing ethically can also pay significant dividends in organizational structure and efficiency.
 - v. Trust, loyalty, commitment, creativity, and initiative are just some of the organizational benefits that are more likely to flourish within ethically stable and credible organizations

III. Ethics and the Law

Chapter Objective 5 Addressed Below

- a. **The law provides an important guide** to ethical decision making. Legal norms and ethical norms are not identical nor do they always agree. However, when new quandaries arise, one must be able to rely on ethics since the law might not yet—or might never—provide a solution.
 - i. Some ethical requirements, such as treating one's employees with respect, are not legally required though they may be ethically warranted.
 - ii. Conversely, some actions that may be legally permitted, such as firing an employee for no reason, would fail many ethical standards.
- b. **Law as Social Responsibility:** A commonly accepted view, perhaps more common prior to the scandals of recent years than after, holds that a business fulfills its social responsibility simply by obeying the law.
 - i. From this perspective, an ethically responsible business decision is merely one that obeys the law; there is no responsibility to do anything further.
 - ii. Individual businesses may decide to go beyond the legal minimum, but these choices are voluntary and a matter of corporate philanthropy and charity.

- c. **Ethics Programs and Officers.** Over the last decade, many corporations have established ethics programs and have hired ethics officers who are charged with managing corporate ethics programs.
 - i. Ethics officers do a great deal of good and effective work, but it is fair to say that much of their work focuses on compliance issues.
 - ii. The Sarbanes–Oxley Act created a dramatic and vast new layer of legal compliance issues.
- d. **Compliance?** Is compliance with the law all that is required to behave ethically?

Reference: “Reality Check—*Transparency International: Perceptions of Foreign Bribery by Sector*”

Chapter Objective 6 Addressed Below

- i. **Example:** Consider one law that has significant impact of business decision making: the Americans with Disability Act. This law requires employers to make reasonable accommodations for employees with disabilities. But what counts as a disability and what counts as a reasonable accommodation? Over the years, claims have been made that relevant disabilities include obesity, depression, dyslexia, arthritis, hearing loss, high blood pressure, facial scars, and the fear of heights. Whether or not such conditions are covered under the law will depend on a number of factors, including how severe the illness is and how it affects the employee’s ability to work. Imagine that you are a corporate human resource manager and an employee asks that you make reasonable accommodations for her allergy. How would you decide if allergies and hay fever are disabilities under the Americans with Disabilities Act?
- e. **Rules versus Case Law:** The law offers general rules that get specified in case law. Most of the laws that concern business are based on past cases that establish legal precedents. There is no unambiguous answer to the conscientious business manager who wishes simply to obey the law.
 - i. Some theories of corporate social responsibility suggest that if a corporate manager is told that she has a responsibility to maximize profits within the law, a competent manager will go to her corporate attorneys and tax accountants to ask what the law allows. Most cases of corporate scandal mentioned at the start of the chapter involved attorneys and accountants who advised their clients that what they were doing could be defended in court.
- f. It would seem a manager has a responsibility to “push the envelope” of legality in pursuit of profits. Because the law is ambiguous, because in many cases it simply is not clear what the law requires, business managers will often face decisions that will rely on their ethical judgments.

- g. Responsible decision making** requires that we *do* step back to reflect upon and consciously choose the values by which we make decisions.

****Teaching Note:** This would be an appropriate point to delve more deeply into the contrast between ethics and law. Take any well-known business law case, describe the factual background, and then ask students to take the point of view of those who argue that the social responsibility of business is to maximize profit within the law. From that perspective, before the outcome of the legal case is known, what ought the business manager do? Then have students read the judicial decision and examine whether they could have known what the law required before the decisions was made.

Chapter Objective 7 Addressed Below

Discussion of Opening Decision Point

Wells Fargo and Facebook: Individual Misconduct, of Failure of Culture?

The Wells Fargo and Facebook cases provide an opportunity to examine individual decision making within an institutional context. Explicit institutional policies and practices such as compensation schemes, performance bonuses, and sales targets, or more subtle institutional practices such as “eight is great” slogans, can influence how individuals make decisions. A helpful class exercise is to ask students to reflect on what motivations they believe lead to decisions at each level of employment: entry-level, branch managers, senior executives, and board members.

This case also provides an occasion to reflect on the role of external stakeholders, including the press and government agencies.

End of Chapter Questions, Projects, and Exercises

1. Other than ethical values, what values might a business manager use in reaching decisions? Are there classes in your college curriculum, other than ethics, which advise you about proper and correct ways to act and decide?

Challenge the students to integrate knowledge and material from their other courses. In particular, challenge them to articulate any behavioral norms that are implicit in such classes as finance, accounting, and economics. Ask students to explain how the norms embedded in these classes differ from ethical norms.

2. Why might legal rules be insufficient for fulfilling one’s ethical responsibilities? Can you think of cases in which a businessperson has done something legally right, but ethically wrong? What about the opposite—are there situations in which a businessperson might have acted in a way that was legally wrong but ethically right?

Direct students to discussion about ethics and the law. This question can also be used to draw parallels between legal and ethical distinctions between what is “required/obligatory” and what is “permitted.”

3. What might be some benefits and costs of acting unethically in business? Distinguish between benefits and harms to the individual and benefits and harms to the firm.

Students may need to be challenged to move beyond economic and financial benefits and harms.

4. Review the distinction between personal morality and matters of social ethics. Can you think of cases in which some decisions would be valuable as a matter of social policy, but bad as a matter of personal ethics? Something good as a matter of personal ethics and bad as a matter of social policy?

Lead a class discussion about the nature of personal morality and matters of social ethics based on relevant current events or leaders. Again, consider the hypothetical case of the HR manager mentioned at II.d.5 as a means to highlight this distinction. Other cases might involve individuals who are charged with certain professional responsibilities—lawyers, auditors, and physicians.

5. As described in this chapter, the Americans with Disabilities Act requires firms to make reasonable accommodations for employees with disabilities. Consider such conditions as obesity, depression, dyslexia, arthritis, hearing loss, high blood pressure, facial scars, and the fear of heights. Imagine that you are a business manager and an employee comes to you asking that accommodations be made for these conditions. Under what circumstances might these conditions be serious enough impairments to deserve legal protection under the ADA? What factors would you consider in answering this question? After making these decisions, reflect on whether your decision was more a legal or ethical decision.

Refer students to the relevant section in the chapter on the Americans with Disabilities Act. In order for circumstances such as obesity, depression, dyslexia, arthritis, hearing loss, high blood pressure, facial scars, and the fear of heights to be serious enough impairments to deserve legal protection under the ADA, the impairment must substantially limit one or more major life activities. When the law is ambiguous, as is always so in case law, any decision will be made in part on the basis of personal values. Such examples help counter the misleading view that many students adopt that the law is a set of rules that provide unambiguous guidance. In turn, this helps instructors move students beyond the perspective that all one needs do is “obey the law.”

6. Do an Internet search for recent news stories about oil spills. Do any of those stories report behaviors that seem especially wise or unwise on the part of the oil companies involved? Do you think that controversies over big pipeline projects like the Keystone Pipeline alter how people evaluate the ethics of oil-spill cleanups?

Students can find information about the risks Enbridge’s pipelines still pose in these news articles:

<https://www.wpr.org/hundreds-participate-hearing-enbridges-proposed-oil-and-gas-pipeline-project>
<https://www.mprnews.org/story/2018/05/31/minnesota-faith-leaders-team-up-against-line-3-oil-pipeline>

7. Construct a list of all the people who were adversely affected by Bernie Madoff's Ponzi scheme. Who, among these people, would you say had their rights violated? What responsibilities, if any, did Madoff have to each of these constituencies?

The concept of "stakeholders" will be introduced in Chapters 2 and 3; therefore, this question is to help students get started thinking about the nature of "stakeholders." Ask students to list the stakeholders in the Madoff situation. An interesting side discussion can be generated by asking students to describe how all of these stakeholders were harmed, and whether or not they view the losses faced by some individuals or organizations (e.g., The Elie Wiesel Foundation for Humanity) differently than those faced by others (e.g., hedge funds or individual celebrities).

8. What difference, if any, exists between ethical reasons and reasons of self-interest? If a business performs a socially beneficial act in order to receive good publicity, or if it creates an ethical culture as a business strategy, has the business acted in a less than ethically praiseworthy way?

This question introduces the concepts of corporate culture and social responsibility, which will be discussed in Chapters 4 and 5.

9. During the recession of 2008–2009 and again during the COVID-19 pandemic, many reputable companies suffered bankruptcies while others struggled to survive. Of those that did remain, some opted to reduce the size of their work forces significantly. In a business environment during those times, consider a company that has been doing fairly well, posting profits every quarter and showing a sustainable growth expectation for the future. However, the general ill ease in the market has caused the company's stock price to fall. In response to this problem, the CEO decides to layoff a fraction of his employees, hoping to cut costs and to improve the bottom line. This action raises investor confidence; consequently, the stock price goes up. What is your impression of the CEO's decision? Was there any kind of ethical lapse in laying off the employees, or was it a practical decision necessary for the survival of the company?

Students should list and consider each of the stakeholders impacted by the company's decision and analyze the business decision in the context of the business' social responsibilities.

10. Every year, Ethisphere Magazine publishes a list of the world's most ethical companies. Go to their website; find and evaluate their rating methodology and criteria; and engage in an assessment (i.e., provide suggestions for any modifications you might make or a more or less comprehensive list, and so on).

<http://ethisphere.com/wme/>