

CHAPTER 2
Defining Business Ethics

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Chapter Summary

This chapter begins by defining how ethics are applied to business behavior. It describes and explains who the stakeholders are in an organization, their interests in the organization, and the impact on them from unethical behavior. Many people, because of the track record over the past two decades, believe that business ethics is an oxymoron, two contradictory terms. This chapter also discusses the history of business ethics and the dramatic changes that have taken place in the business environment over the last four decades. It continues going into deeper detail about the definition and resolution of ethical dilemmas. It discusses four commonly held rationalizations that can lead to misconduct. In conclusion, this chapter begins looking the aspects in building and operating an ethical business.

Learning Outcomes

After studying this chapter, the student should be able to:

1. Define the term *business ethics*.
2. Identify an organization's stakeholders.
3. Discuss the position that *business ethics* is an oxymoron.
4. Summarize the history of business ethics.
5. Identify and propose a resolution for an ethical dilemma in your work environment.
6. Explain how executives and employees seek to justify unethical behavior.

Extended Chapter Outline

Note: Key terms are in boldface.

Frontline Focus

The Customer is Always Right Questions

1. Look at Tables 2.1 and 2.2 and identify which stakeholders would be directly impacted by Rick's plan to sabotage the new healthy menu.

The stakeholders that would be directly impacted by Rick's plan would include customers, employees, and stockholders.

2. Describe the ethical dilemma that Nancy is facing here.

Nancy is faced with abiding or not abiding by Rick's new plan.

3. What should Nancy do now?

Nancy must decide if her values are strong enough to stand up to this dilemma. She could go along with Rick's plan and limit the number of new items and push side items and desserts; or, if her values do not agree with Rick's, Nancy could leave the company or could express her opinion to Rick's boss.

Learning Outcome 1: Define the Term Business Ethics.

- The opening Frontline Focus case shows how unethical behavior arises in the workplace and how values differ among employees.
 - **Business ethics** involves the application of standards of moral behavior to business situations.
 - Two distinct perspectives
 - (1) A *descriptive* summation of the customs, attitudes, and rules that are observed within a business.
 - (2) A *normative* (or *prescriptive*) evaluation of the degree to which the observed customs, attitudes, and rules can be said to be ethical.
 - Business ethics are not a separate set of moral standards or ethical concepts from general ethics.

- It is argued that ethical behavior should be the same both inside and outside a given business situation.
- There are advantages to recognizing the challenging environment of business.
 - Identification of key players impacted by unethical behavior.
 - Identification of situations where personal values may be placed in conflict with behavioral standards expected by an employer.

Learning Outcome 2: Identify an Organization's Stakeholders.

- **Stakeholders** include anyone with a share or interest in a business enterprise.
 - Not every stakeholder will be relevant in every business situation.
 - Not all companies use wholesalers to deliver products.
 - Consumers would not be involved in payroll decisions between the organization and its employees.
- Of great concern is the involvement of stakeholders with the actions of the organization and the extent to which they would be impacted by unethical behavior.
 - Stakeholders include:
 - Stockholders or shareholders
 - Employees
 - Customers
 - Suppliers/vendor partners
 - Retailers/wholesalers
 - Federal government
 - Creditors
 - Community

Learning Outcome 3: Discuss the Position that Business Ethics is an Oxymoron.

- Over the last two decades, the ethical track record of many organizations would lead us to believe that no ethical policies or procedures have been in place.
- **Corporate governance** is the system by which business corporations are directed and controlled.

- Corporate governance appears to be at the lowest level in business history:
 - Several prominent organizations (e.g., Enron, WorldCom, Lehman Brothers, and Bear Stearns) have been found to have hidden the true state of their precarious finances from their stakeholders.
 - Others—Adelphia, Tyco, and Merrill Lynch— have been found to have senior officers who appeared to regard the organization’s funds as their personal bank accounts.
 - Financial reports are released that are then restated at a later date.
 - Products are rushed to market that have to be recalled due to safety problems at a later date.
 - Organizations are being sued for monopolistic practices, race and gender discrimination, and environmental contamination.
 - CEO salary increases far exceed those of the employees they lead.
 - CEO salaries have increased while shareholder returns have fallen.
 - CEOs continue to receive bonuses while the stocks of their companies underperform the market average and thousands of employees are being laid off.
- Many observers believe that the business world lacks any sense of ethical behavior and refer to business ethics as an **oxymoron**— the combination of two contradictory terms.
- **Code of ethics:** A company’s written standards of ethical behavior that are designed to guide managers and employees in making the decisions and choices they face every day.
 - A code of ethics can serve dual purpose:
 - As a message to the organization’s stakeholders, the code should represent a clear corporate commitment to the highest standards of ethical behavior.
 - As an internal document, the code should represent a clear guide to managers and employees in making the decisions and choices they face every day.

Learning Outcome 4: Summarize the History of Business Ethics

- Several dramatic changes have taken place in the business environment over the past four decades:
 - The increased presence of an employee voice has made individual employees feel more comfortable speaking out against actions of their employers that they feel to be irresponsible or unethical.
 - The issue of corporate social responsibility has advanced from an abstract debate to a core performance-assessment issue with clearly established legal liabilities.
 - Corporate ethics has moved from the domain of legal and human resource departments into the organizational mainstream with the appointment of corporate ethics officers with clear mandates.
 - Codes of ethics have matured from cosmetic public relations documents into performance-measurement documents that an increasing number of organizations are now committing to share with all their stakeholders.
 - The 2002 Sarbanes-Oxley Act has introduced greater accountability for chief executive officers and boards of directors in signing off on the financial performance records of the organizations they represent.
- The extent of guidance available to employees is often nothing more than a series of clichés:
 - Consult the company code of ethics.
 - Do what's right for the organization's stakeholders.
 - Do what's legal.
 - Do what you think is best.
 - Do the right thing.

Learning Outcome 5: Identify and Propose a Resolution for an Ethical Dilemma in Your Work Environment.

- When an employee observes unethical behavior (e.g., fraud, theft, incentives paid under the table to suppliers) the extent of guidance available to them is typically a series of clichés:
 - Consult company code of ethics.
 - Do what's right for the organization's stakeholders.

- Do what's legal.
- Do what you think is best ("use your best judgment")
- Do the right thing.
- **Ethical dilemma:** A situation in which there is no obvious right or wrong decision, but rather a right or right answer.
 - Resolution of an ethical dilemma can be achieved by first reorganizing the type of conflict you are dealing with.
 - Types of conflict:
 - Truth versus loyalty.
 - Short-term versus long-term.
 - Justice versus mercy.
 - Individual versus community.
 - In the types of conflict scenarios, both sides are right to an extent, but since you can't take both actions, you are required to select the better or higher right based on the personal resolution process.
 - Truth versus loyalty.
 - It is right on one hand.
 - It is right on the other hand.
 - Once a decision is reached as to the type of conflict being faced, there are three resolution principles available:
 - *Ends-based:* Which decision provides the greatest good for the greatest number of people?
 - *Rules-based:* What would happen if everyone made the same decision as you?
 - *The Golden Rule:* Do unto others as you would have them do unto you.
 - The resolution principles do not offer a perfect solution or resolution to the problem because one can't predict how another individual might act given a certain scenario.

Learning Outcome 6: Explain How Executives and Employees Seek to Justify Unethical Behavior.

- Ask how do supposedly intelligent and presumably experienced executives and employees manage to commit acts that end up inflicting such harm on their companies, colleagues, customers, and vendor partners?
 - Saul Gellerman identified “four commonly held rationalizations that can lead to misconduct.”
 - The Golden Rule—Do unto others as you would have them do unto you.
- Ethical justifications:
 - A belief that the activity is within reasonable ethical and legal limits —that is, the activity is not “really” illegal or immoral.
 - A belief that the activity is in the individual’s or corporation’s best interests —that the individual would somehow be expected to undertake the activity.
 - A belief that the activity is safe because it will never be found out or publicized—the classic crime-and-punishment issue of discovery.
 - A belief that because the activity helps the company, the company will condone it and even protect the person who engages in it.

Life Skills

Making tough choices

This Life Skills box discusses how one’s personal values can directly conflict with those of your employer. It discusses the three options available in this situation: leave and find another job; keep your head down, do what you have been asked to do, and hold on to the job; or, talk to someone in the company about how uncomfortable the situation is making you feel and see if you can change things. All of these options are tough choices.

Progress Check Questions

1. Explain the term *business ethics*.

Business ethics involves the application of standards of moral behavior to business situations.

2. Explain the difference between a *descriptive* and *prescriptive* approach to business ethics.

A *descriptive* approach is a descriptive summation of the customs, attitudes, and rules that are observed within a business. This involves documenting what *is* happening. A *prescriptive* method is an evaluation of the degree to which the observed customs, attitudes, and rules can be said to be ethical. This involves recommending what *should be* happening.

3. Identify six stakeholders of an organization.

Stakeholders of an organization can include stockholders/shareholders, employees, customers, suppliers/vendors, retailers/wholesalers, federal government, creditors, or community, etc.

4. Give four examples of how stakeholders could be negatively impacted by unethical corporate behavior.

(1) Stockholders could lose value of their stock ownership.

(2) Employees could lose their job.

(3) Customers could receive poor service quality.

(4) Suppliers may not be paid for invoices when a company declares bankruptcy.

5. Define the term *oxymoron* and provide three examples.

An **oxymoron** is the combination of two contradictory terms, such as “deafening silence,” “jumbo shrimp,” or “authentic reproduction.”

6. Is the term *business ethics* an oxymoron? Explain your answer.

Student answers will vary. Given the ethical track record of organizations over the last several decades, many people believe that the business world lacks any sense of ethical behavior.

7. Define the term *corporate governance*.

Corporate governance is the system by which business corporations are directed and controlled.

8. Explain the term *code of ethics*.

A **code of ethics** is a company's written standards of ethical behavior that are designed to guide managers and employees in making the decisions and choices they face every day.

9. Identify a major ethical dilemma in each of the last four decades.

1960s – Environmental issues, civil rights issues dominate, work ethic changes, and drug use escalates.

1970s – Employee militancy, human rights issues surface, some firms choose to cover rather than correct dilemmas.

1980s – Bribes and illegal contracting practices, influence peddling, deceptive advertising, financial fraud.

1990s – Unsafe work practices in Third World countries, increased corporate liability for personal damage, financial mismanagement and fraud.

2000s – Cyber crime, privacy issues, financial mismanagement, international corruption, loss of privacy, and intellectual property theft.

10. Identify a key development in business ethics in each of the last four decades.

1960s – Companies begin establishing codes of conduct and values statements, birth of social responsibility movement, corporations address ethics issues through legal or personnel departments.

1970s – Ethics Resource Center (ERC) founded, compliance with laws highlighted, Federal Corrupt Practices Act, values movement begins to move ethics away from compliance orientation to being “values centered.”

1980s – ERC develops the U.S. Code of Ethics for Government Service, ERC forms first business ethics office at General Dynamics, Defense Industry Initiative established, and False Claims Act.

1990s – Federal Sentencing Guidelines, class action lawsuits, Global Sullivan Principles, *In re Caremark*.

2000s – Business regulations mandate stronger ethical safeguards, anticorruption efforts grow, shift to emphasis on corporate social responsibility and integrity management, formation of international ethics centers to serve the needs of global business, OECD Convention on Bribery, and the Sarbanes-Oxley Act has introduced greater accountability for chief executive officers and board of directors in signing off on the financial performance records of the organizations that they represent.

11. Which decade saw the most development in business ethics? Why?

The 1990s saw the most developments in business ethics because of global expansion and the emergence of the Internet.

12. Which decade saw the most ethical dilemmas? Why?

The 2000s saw the most **ethical dilemmas** because of the Internet, international expansion, and financial mismanagement.

13. Give four examples of the clichés employees often hear when faced with an ethical dilemma.

- (1) Consult the company code of ethics.
- (2) Do what's right for the organization's stakeholders.
- (3) Do what's legal.
- (4) Do what you think is best ("use your best judgment").
- (5) Do the right thing.

14. List the four types of ethical conflict.

Truth versus loyalty, short-term versus long-term, justice versus mercy, and individual versus community.

15. List the three principles available to you in resolving an ethical dilemma.

Ends-based, Rules-based, and the Golden Rule.

16. Give an example of an ethical business dilemma you have faced in your career and explain how you resolved it, indicating the type of conflict you experienced and the resolution principle you adopted.

Student responses will vary. The **ethical dilemma** described should fit the definition: a situation in which there is no obvious right or wrong decision, but rather a right or wrong answer.

Ethical Dilemma

Case 2.1 – The Ford Pinto

1. Should a manufacturer go beyond government standards if it feels there may be a potential safety hazard with its product?

Student responses will vary. Students may argue that manufacturers should go above and beyond the government's standards if it feels there may be a potential safety hazard with its products. Other will argue that manufacturers will only do what is required by government standards. However, to remain competitive in the marketplace, a manufacturer can go above and beyond to ensure that the consumer is safe. This strategy not only benefits the stakeholders, but also establishes a positive reputation within the industry. Ford's reputation was somewhat tarnished as a result of this incident. As noted in this study, "the Ford Pinto is still remembered as a dangerous firetrap."

2. Once the safety issue became apparent, should Ford have recalled the vehicle and paid for the retrofit? Should they have invited owners to pay for the new barrier if they so chose? If only half the owners responded to the recall, what would the company's obligation be?

Student responses will vary. Yes, Ford should have recalled the vehicle and paid for the retrofit once they knew that there was a safety issue. Ford's obligation would be far less if only half the owners responded to the recall; and the company needed to pay for the new barrier to project to consumers that they care about consumers' wellness and business.

3. Is there a difference for a consumer between being able to make a conscious decision about upgrading safety features (such as side airbags) and relying on the manufacturer to determine features such as the tensile strength of the gas tank?

Student responses will vary. There is a huge difference between being able to make a conscious decision about a safety-feature upgrade and relying on a manufacturer to determine the safety features. Typically, manufacturers only have the obligation to offer basic or required safety features on the automobiles sold to consumers.

4. Once Pintos had a poor reputation, they were often sold at a discount. Do private sellers have the same obligations as Ford if they sell a car they know may have design defects? Does the discount price absolve sellers from any responsibility for the product?

Student responses will vary. Private owners should have the same obligation as Ford if they sell a car they know may have design defects. A discount price should not absolve sellers from any responsibility for the product. It is important for sellers to have a strong code of ethics in their business transactions.

Case 2.2 – Too Big to Fail?

1. You are responsible for signing-off on bonuses for AIG executives in the amount of \$165 million, with the top seven executives of the company each receiving more than \$4 million. News of the bonus payments creates a public outcry over the payment of millions of dollars to executives who have driven the company into near-bankruptcy. Supporters of the bonus structure at AIG argue that failure to pay the bonuses would result in the departure of senior executives to AIG's competitors. Is this a valid defense? Why or why not?

Student responses will vary. There is a fine line between loyalty to the company and ethical business practices, especially when you consider the public outcry over the payments.

Students can review the resolution process and decide that, yes, it is a valid defense if you consider the standard of corporate governance concept. The senior executives should be evaluated to determine whether or not they truly are fulfilling the duties and responsibilities of their offices and the obligations to the stakeholders.

AIG could also review its code of ethics and consider whether or not it wants to clean house and replace those senior managers.

2. The AIG collapse was blamed on one division of the company — the credit default swap department. Executives in the other departments that contributed positive revenue to AIG's bottom line feel strongly that they earned their bonuses. Do they have a case?

Student responses will vary. Recall the resolution process and the argument can lead to a positive response: the executives deserved the bonuses. Management should review the code of ethics and evaluate whether or not the payout of those bonuses would result in illegal business practices, given the fact that AIG received a large bailout package. Another concept to consider is that the organization is a team structure: one for all, or none for all.

3. Your boss encourages you to try and convince the executives to forego their bonuses “for the good of the company and its reputation.” How would you go about doing that?

Student responses will vary. The students should note that a bonus is paid when the company is profitable. It is established as a reward for employees who go above and beyond the call of duty to ensure the continuance of those profits. Establish a meeting to discuss the positive

and negative consequences related to the payout of the bonuses. Students should discuss the moral and legal consequences of the payout.

Students should recall the resolution process and evaluate the case based on their observations.

4. Is it possible to resolve this issue to the satisfaction of both the taxpayers who bailed out AIG and the senior executives? Why or why not?

Student responses will vary. Students should note that taxpayers and other stakeholders believe that they are being robbed by the senior executives at AIG. In their defense, senior executives at AIG believe that they earned the bonuses and expect to be paid for their services. Students should review the resolution process and start a discussion based on their observation of the case and the relevant resolution process.

Frontline Focus

The Customer Is Always Right— Nancy Makes a Decision Questions

1. Did Nancy make the right choice here?

Student answers will vary. Nancy did a good job of keeping track of the sales and information needed to show Rick that he wouldn't have to purposely run out of new items. She also was able to keep customers happy during while she gathered the information. However, she will need present this information to Rick in a professional and courteous manner, as not to insult him or his idea.

2. What do you think Rick's reaction will be?

Student answers will vary. Rick's reaction will depends on how Nancy approaches him with the information. If she accuses him of being unethical and wrong, Rick will not be happy and probably reprimand Nancy for not following instructions. If she can portray the information in a manner as to not insult Rick, Nancy may be rewarded for taking initiative as an innovative and inspiring team leader.

3. What would the risk have been for the restaurant if it had implemented Rick's plan and deliberately run out of the new items?

Student answers will vary. The risk would have been the loss of customers, both old and new. Customers loyal to the old menu items would continue to purchase those items, with an occasional new item. However, new customers would be driven away and frustrated as they were constantly told that the restaurant was out of an item and offered something else instead.

Key Terms

Business Ethics: The application of ethical standards to business behavior.

Code of Ethics: A company's written standards of ethical behavior that are designed to guide managers and employees in making the decisions and choices they face every day.

Corporate Governance: The system by which business corporations are directed and controlled.

Ethical Dilemma: A situation in which there is no obvious right or wrong decision, but rather a right or right answer.

Oxymoron: The combination of two contradictory terms, such as "deafening silence" or "jumbo shrimp."

Stakeholder: Someone with a share or interest in a business enterprise.

Review Questions

NOTE: some questions allow for a number of different answers. Below are some suggestions.

1. Based on the history of business ethics reviewed in this chapter, do you think the business world is becoming more or less ethical? Explain your answer.

Student responses will vary. Some students may say that the business world is becoming less ethical based on the number of bailouts that resulted from the financial crisis in 2008 and 2009. Government is increasing the laws, regulations, and the punishment associated with unethical behavior and in the long run this will make businesses become more ethical. Others may say regulation is creating more problems, rather than solving them.

2. How would you propose the resolution of an ethical dilemma using The Golden Rule?

Student responses will vary. Students need to propose an ethical dilemma and use the Golden Rule in their responses.

3. Why should a short-term or long-term consequence make a difference in resolving an ethical dilemma?

Student responses will vary. The resolution of any ethical dilemma requires the recognition of the type of conflict at hand. Individuals can see both the short-term and long-term consequences that result in unethical behavior. Short-term consequences may require a different resolution principle. For example, for a long-term consequence, the manager could consider an ends-based resolution principle; and for a short-term consequence, the manager may consider the Golden Rule resolution principle or the rules-based resolution principle.

4. Of the four commonly held rationalizations for unethical behavior proposed by Saul Gellerman, which one do you think gets used most often? Why?

The student responses will vary based on their perceptions, but students are expected to include one of Gellerman's four rationalizations in their responses.

5. Is it ever acceptable to justify unethical behavior? Why or why not?

Student responses will vary; however, it is never acceptable to justify unethical behavior. Most organizations have formal code of ethics and they expect their employees to adhere to them.

6. Explain what "doing the right thing" in a business environment means to you.

The student responses will vary. The student should explain his/her view of what doing the right thing in a business environment means to the individual student.

Review Exercises

1. Since you are traveling on company time, does the free ticket belong to you or company?

Defend your choice.

Student responses will vary. The ticket belongs to the company. The company is paying for your travel expenses; therefore, the “right thing to do” is to professionally and ethically represent your company and complete the assignment at the best of your ability.

2. If the later flight was actually the next day (and the airline offered you an accommodation voucher along with the meal vouchers) and you would be late getting into work, would you make the same choice? Explain your answer.

Student responses will vary. If there was no way around this situation, then this would be fine. However, if you simply chose to take the late flight to receive the upgrades, then it would not be fair to your employer. You should be taking the flight that was originally booked and return to work as scheduled.

3. What if the offer only reached a \$100 discount coupon on another ticket—would you still take it? If so, would you hold the same opinion about whether the coupon belonged to you or your company?

Student responses will vary. The amount of extra time spent waiting for the late flight would not be worth the \$100 discount on another ticket, especially if it means getting to work late. If the discount were taken, the coupon would belong to the company.

4. Should your company offer a clearly stated policy on this issue or should they trust their employees to “do the right thing?” Explain your answer.

Student responses will vary. There should be a clearly stated policy regarding traveling on company time and resources. However, there will always be situational issues that arise that may or may not be covered, in which case the company should trust their employees, along with giving them ethical training.

Internet Exercises

1. Locate the Web site for the Ethics and Compliance Officer Association (ECO). The ECOA makes a public commitment to three key values. What are they? How does the mission of the ECOA differ from that of the ERC?

The ERC is a nonprofit research organization that is devoted to the advancement of high ethical standards and practices in public and private institutions. ERC assists organizations of all types with their efforts to assess their ethics and compliance programs. They assess organizational programs by utilizing qualitative and quantitative techniques and provide national and industry peer benchmarks to help organizations better understand the findings from their own contexts. The ERC Partners Program facilitates the gathering of empirical ethical culture survey data by ERC's Partners and its clients to facilitate identification, training, and consulting to improve the ethical culture of ERC's Partners' clients.

The ECOA's values include integrity, confidentiality, collegiality, and cooperation. The mission of the ECOA differs from the ERC's in that it brings together ethics professionals and creates a network of resources. The ERC is more based on the research of ethics

2. Locate the Web site for the Center for Business Ethics (CBE). Find the Research Publications page and identify the most recent research report released by the CBE. Briefly summarize the ethical issue discussed in the report. Do you agree or disagree with the conclusions reached in the report? Explain your answer.

Student responses will vary.

Team Exercises

1. Thanks for training!

Divide into two groups and prepare arguments *for* and *against* the following behavior:

You work in the IT department of a large international company. At your annual performance review, you were asked about your goals and objectives for the coming year and you stated that you would like to become MCSE (Microsoft Certified Systems Engineer) certified. You didn't get much of a pay raise for the MCSE course—you're attending the training next week. However, after receiving the poor pay raise, you had polished your resume and applied for some other positions. You have received an attractive job offer from another company for more money, and, in the last interview, your potential new boss commented that it was a shame you didn't have your MCSE certification because that would qualify you for a higher pay grade. The new company doesn't have the training budget to put you through the MCSE training for at least two years. You tell the interviewer that you will complete the MCSE training prior to starting the new position in order to qualify for the higher pay grade. You choose not to qualify that statement with any additional information on who will be paying for the training. You successfully gain the MCSE certification and then give your two weeks' notice. You start with your new company at the higher pay grade. Is that ethical?

Group responses will vary. Many people do move on to new jobs after receiving training from one company. If there is no stipulation in the company policy stating the employee must work for a specified time period upon completion of training to be fully paid for by the company, then it is the employee's right to search for other jobs. Many companies will only pay for certification courses if the employee agrees to work for them for a certain time period; otherwise, if the employee decides to leave, then the certification is their financial obligation.

2. What you do in your free time...

Divide into two groups and prepare arguments *for* and *against* the following behavior:

You are attending an employee team-building retreat at a local resort. During one of the free periods in the busy agenda, you observe one of your colleagues in a passionate embrace with a young woman from another department. Since you work in HR and processed the hiring paperwork on both of them, you know that neither one of them is married, but your benefit plan provides coverage for “life partners” and both of them purchase health coverage for life partners. As you consider this revelation further, you are reminded that even if they both ended their relationships with their respective partners, the company has a policy that expressly forbids employees from dating other employees in the company. Both you and the colleague you observed have applied for the same promotion—a promotion that carries a significant salary increase. What is your obligation here? Should you report him to your boss?

Group responses will vary. This is a tough scenario. If you do not inform your boss of your colleague, then there are potential problems if something should happen between the two “partners” or if someone else were to see them together. Plus, if the company has a clearly stated policy on employees dating other employees, then your colleague should be reported. However, if you do report your colleague, it may seem as though you are motivated by the promotion for which you and the colleague are both applying. This may cause some inter-office conflict, especially if the colleague discovers who reported his actions to the boss.

3. Treatment or prevention?

Divide into two groups and prepare arguments for *treatment* (Group A) and *prevention* (Group B) in the following situation:

You work for a local nonprofit organization in your city that is struggling to raise funds for its programs in a very competitive grant market. Many nonprofits in your city are chasing grant funds, donations, and volunteer hours for their respective missions—homelessness, cancer awareness and treatment, orphaned children, and many more. Your organization’s mission is to work with HIV/AIDS patients in your community to provide increased awareness of the condition for those at risk and also to provide treatment options for those who have already been diagnosed. Unfortunately, with such a tough financial situation, the board of directors of the nonprofit organization has determined that a more focused mission is needed. Rather than serving both the prevention and treatment goals, the organization can

only do one. The debate at the last board meeting, which was open to all employees and volunteers, was very heated. Many felt that the treatment programs offered immediate relief to those in need, and therefore represented the best use of funds. Others felt that the prevention programs needed much more time to be effective and that the funds were spread over a much bigger population who might be at risk. A decision has to be reached. What do you think?

Group responses will vary. If the organization decided to focus on the treatment, then they would provide some relief to those who are suffering. It is extremely expensive to treat these patients; therefore, these patients would be grateful for the options and help provided. However, if the organization focuses on treatment, then it may send a signal to the community that the organization is emphasizing prevention. More people could potentially be saved through prevention methods rather than waiting until they have contracted the disease.

4. Time to raise prices...

Divide into two groups and prepare arguments *for* and *against* the following behavior:

You are a senior manager at a pharmaceutical company that is facing financial difficulties after failing to receive FDA approval for a new experimental drug for the treatment of Alzheimer's disease. After reviewing your test data, the FDA examiners decided that further testing was needed. Your company is now in dire financial straits. The drug has the potential to revolutionize the treatment of Alzheimer's, but the testing delay could put you out of business. The leadership team meets behind closed doors and decides the only way to keep the company afloat long enough to bring the new drug to market is to raise the prices of its existing range of drug products. However, given the financial difficulties your company is facing, some of those price increases will exceed 1,000 percent. When questions are raised about the size of the proposed increases, the chief executive officer defends the move with the following response: "Look, our drugs are still a cheaper option than surgery, even at these higher prices; the insurance companies can afford to pick up the tab; and, worst case scenario, they'll raise a few premiums to cover the increase. What choice do we have? We have to bring this new drug to market if we are going to be a player in this industry."

Group responses will vary. The company needs to look at all possible options before deciding to increase prices. The company should try to minimize the amount of increase if

this is the only option and then increase the drugs with the smallest profit margin. The ethical issue in this situation is a matter of price gouging, though this company would not be increasing prices only to stay in business, and not just to improve their bottom line. It is not unethical to be charge more than other businesses. The idea that this new drug, once further tested, could really help with the treatment of Alzheimer's could potentially help a lot of people.

Thinking Critically – Exercise 2.1

Phoenix or Vulture?

1. Why would BMW sell millions of pounds of assets for £10 million and loan the buyer an additional £427 million?

Students' responses will vary. BMW sold the large stock of unsold inventory assets for £10 million to generate funds. They loaned the buyer an interest-free loan at £427 million in their attempt to turn around the last domestically owned mass-production car company in Britain.

2. Why would SAIC want to buy 70% of a company that was losing money for £1 billion?

Students' responses will vary. The Shanghai Automotive Industry Corporation (SAIC) wanted to invest the funds so they could participate in the joint venture new car models and automotive technologies.

3. With compensation packages already locked-in, do you think the executives were committed to making the SAIC or Tata Motor's deals work?

Students' responses will vary. At this point, the company was desperate and needed to make a deal. MG Rover was out of money and it is speculative if they were truly committed to a deal with either SAIC or Tata Motors.

4. If MG Rover had been successful in winning a £120 million loan from the government rather than a £ 6.5million loan, would the outcome of the SFO investigation have been any different?

Student responses will vary. If MG Rover had been successful in winning the £120 million loan from the government the outcome probably would not have been different. The company had accumulated debts of £1.3 billion and more than 6,000 individuals were unemployed. It would not have been enough funds to keep the company going and prevent the SFO investigation.

5. The Phoenix Four maintain they did nothing wrong. How would you defend their conduct from a business ethics perspective?

Student responses will vary. The Phoenix Four managed to maintain their salaries and compensation packages during the times of turmoil and job losses. They received total compensation in the amount of £42 million over five years. Although the amount of compensation was said to be small by the American bailout standards, it was excessive.

6. What do you think the outcome should have been for The Phoenix Four?

Students' responses will vary. The SFO did not find grounds for criminal prosecution.

Thinking Critically – Exercise 2.2

Unequivocal Dedication to Business Ethics?

1. Visit the website for BELA at www.ethisphere.com/bela. Define the four core values and explain which one you think will be the hardest for members to achieve any why.

Students' responses will vary. According to the Web site, the four core values at the Business Ethics Leadership Alliance include legal compliance, transparency, identification of conflicts of interest, and accountability.

2. Do you think it was a good idea to welcome founding members with such widely publicized ethical transgressions in their past? Why or why not?

Students' responses will vary. Regardless of their past, the council members provide access to important resources to help individuals do their jobs.

3. BELA is a U.S.-driven initiative at the moment. Do you think it will achieve a wider global acceptance over time? Why or why not?

Students' responses will vary. As time progresses and the role of ethics becomes a widespread initiative, it is hopeful that it will achieve a wider global acceptance over a period of time.

4. Are the four core values—Legal Compliance, Transparency, Identification of Conflicts of Interest, and Accountability—enough to establish a credible reputation as an ethical company?

Students' responses will vary. These four core values will enhance the opportunities to develop a credible reputation as an ethical company.

5. Cynics could argue that this is simply a public relations exercise for companies that have performed unethical business practices in the past. Optimists could argue that this is, at the very least, a step in the right direction of restoring the ethical reputation of business as a whole. What do you think?

Students' responses will vary. It is hopeful that it is a step in the right direction of restoring the ethical reputation of the business. It is very difficult to re-establish a positive image and reputation once it has been tarnished.

6. According to the rules of BELA, members will be audited every two years to make sure they are in compliance with BELA standards, and can face removal from the alliance should that audit provide evidence of failure to comply. Do you think the threat of removal from the alliance will keep members in line? Why or why not?

Students' responses will vary. The threat of removal from the alliance is an incentive to keep members in line. Although some members of the alliance may partake in unethical practices, it is hopeful that they would learn how to and continue to make strong ethical decisions.

Thinking Critically Exercise 2.3

Teaching or Selling?

1. Where is the conflict of interest in this CME relationship?

Students' responses will vary. The conflict of interest in this CME relationship is that drug makers and medical device manufacturers are only sponsoring CME courses for their own benefit by promoting their products.

2. Do you think doctors are likely to be influenced by such promotional tactics? Why or why not?

Students' responses will vary. Doctors would most likely be influenced by seeing the names and sponsors of drug makers and manufacturers while attending and completing their CME

courses. These promotional tactics relate the name of the drug companies as a company who is heavily involved in the medical industry and willing to sponsor such events.

3. If the pharmaceutical company is paying for the event, shouldn't it have the right to promote its products at the event? Why or why not?

Student responses will vary. If the pharmaceutical company is paying for the event, it should have the right to promote its products at the event because all pharmaceutical companies have the opportunity to be a sponsor or pay for the event. However, the sole purpose of paying for the event should not be promotion.

4. Pfizer stated in 2008 that it would only support medical education put on by hospitals and professional medical associations. How can it then justify the Stanford grant?

Students' responses will vary. Doctors and physicians are required to take CME courses; however, if these courses are put on by marketing companies, then it appears to be more of a promotional seminar than a learning environment. If supported when put on by hospitals and professional medical associations, it appears to have a more professional and educational aspect. Some may consider it a way for Pfizer to obtain research and data for the good of the cause; however, others might consider its acts unethical.

5. Has Pfizer simply replaced one conflict of interest with another? Why or why not?

Students' responses will vary. The company had the right to modify its 2008 position and create a grant to encourage medical courses in education. It doesn't necessarily mean that it replaced one conflict of interest with another.

6. Propose an alternative approach to ensure CME is provided without a conflict of interest.

Students' responses will vary. CME courses must be taken by doctors in order to maintain their licenses. Pharmaceutical companies must be aware of the mounting concern of conflict of interest and promotional tactics and take this into consideration when supporting or sponsoring a CME event. CME events put on by hospitals and professional medical organizations appear much more legitimate and less conflicting than when third-party marketing and communications companies put on the event.