Business Ethics

Ethical Decision Making and Cases

EIGHTH EDITION

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To the Instructor

This *Instructor's Resource Manual* for *Business Ethics: Ethical Decision Making and Cases,* Eighth Edition, by O. C. Ferrell, John Fraedrich, and Linda Ferrell is designed to assist the instructor teaching from our text. We provide the following teaching aids:

- Detailed **lecture outlines** to guide class lectures. The outlines can be used to quickly review a chapter before class or to gain an overview of the entire book.
- A **syllabus guide** with suggestions for using the text materials in a business ethics class.
- Guides to discussing "An Ethical Dilemma" (chapter-opening scenarios) and "Resolving Ethical Business Challenges" (end-of-chapter minicases).
- **Case notes,** which provide additional insight about the cases, will help you evaluate or lead case analysis and discussions. We do not suggest answers to the case questions in the text, but our notes should help you identify key issues, alternatives, and insights to critical thinking.
- **Role-play exercises** for class simulations of ethical dilemmas. These role-playing exercises are designed to help students understand the real world challenges of ethical decision making. We provide both options for implementation and teaching overviews for the six simulations.
- Three **additional cases** for classroom purposes. In addition to the cases in the textbook, we provide three additional cases in this manual: "Great State Wheat Flakes Can't Be Beat," "Acme Title Pawn," and "The Playskool Travel-Lite Crib."
- More cases can be accessed through the Aspen Institute's website www.caseplace.org. As of publication, these cases were free of charge and dealt with ethics and social responsibility issues in organizations.
- A number of **videos** on ethics and social responsibility, all of them newly selected for this edition, accompany the textbook and help to bring real-world examples and skill-building scenarios into the classroom.
- **ProfessorJournal.com.** Use this link to sign up for the *Wall Street Journal* online Educator's Reviews. These reviews, written by O.C. Ferrell, are designed to help you easily integrate *Journal* content into your classes. Each review highlights three *Wall Street Journal* articles and includes article summaries, discussion questions, and WSJ.com links. These email reviews are sent out weekly. Members can also access an archive of past article selections.
- Go to www.e-businessethics.com to access teaching resources that include additional PowerPoints and an online teaching business ethics resource manual.

The *Instructor's Resource Manual* provides a flexible menu of material to assist you, depending on your goals and time schedule. For instructors using the book as a supplement in Business and Society, Business Policy, Marketing Strategy, Accounting, or other management, marketing, or finance courses, we suggest several alternatives. Instructors who spend only a few weeks covering business ethics may incorporate a combination of lectures from the chapters along with an examination. We suggest that instructors who want to cover business ethics, but do not have the class time, have students read the book, then use objective or essay test items to evaluate student comprehension.

To the Instructor

Instructors using this book in Business Ethics courses should enhance learning by covering as many elements of the *Business Ethics* text as possible. Our case notes do not provide specific right or wrong solutions, but rather provide additional insight that should help you with the case discussions in class. By encouraging discussions of material from the text and the cases, an intelligent dialogue can emerge that should focus on approaches to ethical decision making, not the emotional aspects of personal ethical beliefs. Each chapter has “An Ethical Dilemma” at the beginning and “Resolving Ethical Business Challenges” at the end. The questions accompanying each of these elements should stimulate discussion. Students should be encouraged to discuss the ethical issues raised by these dilemmas and situations, and relate the issues to the material in the chapter.

The simulation role-play exercises allow students to both assume various roles within an organization, and operate as representatives of different functional areas, to assist in addressing specific ethical issues. The simulations require minimal instructor effort to implement. Since these are designed as “pen and paper” exercises, there is no need for computer access or outside research. If you have never used a simulation exercise, we highly encourage you to try it. As it actively engages the students, we think you will find it to be an effective teaching device. Business ethics issues often require a rapid strategic response from an organizational group or team. These exercises simulate this experience, and students are given an opportunity to apply the concepts discussed in class.

Business ethics is a new area of discovery for many students. While it is one of the most important business topics today, there are many different points of view on the best way to teach business ethics in class (whether it should be a stand-alone course or incorporated into other courses). We believe that business ethics can be covered in class just like other business courses. Our goal is to give you the freedom to add your own perspective to our teaching materials.

We sincerely appreciate the extreme diligence of Jennifer Jackson in developing and editing the material in the *Instructor’s Resource Manual*, writing and updating material for the chapters and the cases, selecting the videos, and developing the online interactive quizzes. Jennifer Sawayda also deserves special thanks for her help in editing and updating the cases. Melanie Drever and Gwyneth Walters merit thanks for their assistance with previous editions of this manual.

We want to do our best to provide teaching materials that enhance the study of business ethics. Your suggestions will be sincerely appreciated. Please feel free to contact the authors to discuss teaching business ethics, the material in the text, or the *Instructor’s Resource Manual.*

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SYLLABUS
Business Ethics

SYLLABUS GUIDE

Instructor:

Office Location:

Phone:

Office Hours:

TEXT

Ferrell, Fraedrich, and Ferrell, *Business Ethics: Ethical Decision Making and Cases,* Eighth Edition, Cengage Learning, 2011

READINGS FROM BUSINESS ETHICS JOURNALS

Journal of Business Ethics, Business and Society Review, Environmental Ethics, Business Ethics Quarterly, Professional Ethics, Business and Professional Ethics Journal, International Journal of Value Based Management, Employee Responsibility and Right Journal

INTERNET RESOURCES

1. Ferrell/Fraedrich/Ferrell *Business Ethics* Companion Site
   - Go to http://www.cengage.com
   - Select "Management" and then "Ethics"
   - *Select Ferrell/Fraedrich/Ferrell* BUSINESS ETHICS *from the textbook sites menus*
2. Links to current resources, additional centers, articles, training materials and more are available at www.e-businessethics.com
3. Business Ethics and Social Responsibility Cases through the Aspen Institute: www.caseplace.org.
4. AACSB Ethics Education Resource Center: www.aacsb.edu
5. Better Business Bureau: www.bbb.org

READING FROM THE POPULAR PRESS

Business Ethics Magazine, Wall Street Journal, USA Today, Fortune, Business Week, Business 2.0, Forbes, Christian Science Monitor, Barron's, local newspapers

OBJECTIVES

1. Study the business ethics issues and definitions, theories, and frameworks important to organizational ethical decision making.

2. Identify the role of stakeholder interests and recognize ethical issues in business.

SYLLABUS

3. Understand the interrelationship of ethics and social responsibility.

4. Relate the significant issues of an ethical controversy in business to moral philosophy, work group influence, corporate culture, and social responsibility.

5. Choose and defend a theory or principle for resolving an ethical dispute in business.

6. Articulate and defend choices in making ethical judgments in business.

7. Examine the consequences of unethical and ethical business decisions.

8. Expose students to the individual reasoning processes of others when resolving ethical dilemmas.

9. Understand the role of corporate governance and corporate culture in ethical decision making.

10. Evaluate the role of organizational ethics programs and understand the importance of implementing and auditing ethics and compliance programs.

11. Evaluate attempts to legalize business ethics through the Federal Sentencing Guidelines for Organizations and the Sarbanes-Oxley Act.

12. Understand the role of ethical leadership in developing an ethical organizational climate.

13. Understand the benefits of strong ethics and compliance initiatives in terms of customer satisfaction, employee retention, and public relations.

14. Allow students to experience current ethical dilemmas through cases and role-play exercises.

CLASS SYLLABUS

To view alternative approaches to teaching this class, please access the Instructor's website for class syllabi.

CHAPTER 1

The Importance of Business Ethics

SUMMARY

This chapter provides an overview of the field of business ethics. It develops a definition of business ethics and discusses why it has become an important topic in business education. It also examines the evolution of business ethics in North America and explores the benefits of ethical decision making in business. Finally, the chapter provides a framework for examining business ethics in this text.

INSTRUCTOR NOTES FOR "AN ETHICAL DILEMMA"

This Ethical Dilemma focuses on the often murky world of financial trading. John was hired at BS because of his stellar record for results, not because of his strong ethical standards. John's investment strategies worked well every time, to the point where other investment brokers began to imitate his approach. While it seems that initially none of John's actions were outright illegal, because he had years of experience and knew where to draw the line, his lifestyle got out of control. John's expense account for wooing his clients, which he paid for out of his own pocket, began to get very expensive. He also had new family responsibilities and a new house to worry about. On top of all of these outside issues, John was supposed to be training new hires at his job. It was John's responsibility to oversee and train these new hires, but because he was distracted by a myriad of other things, he let those new hires trade as they saw fit. Since they had limited experiences and poor training in the code of ethics and conduct of the company, these new hires made some trades that looked to the SEC like insider trading.

Since John was supposed to be supervising their actions, he fears that he will be found liable. Furthermore, John's personal successes had gotten to his head, causing him to make some risky and potentially illegal trades as well.

LECTURE OUTLINE

I. Business Ethics Defined
   A. **Business ethics** is a complicated and controversial topic:
      1. The field of business ethics concerns questions about whether specific business practices are acceptable.
      2. Business ethics is controversial and there is no universally accepted approach for resolving ethical issues.
      3. Values and judgments play a critical role in the making of ethical decisions. B. Some special aspects must be considered when applying ethics to business.
      1. Businesses must earn a profit to survive.
      2. Businesses must balance their desires for profits against the needs and desires of society.
      3. Maintaining this balance often requires compromises or tradeoffs.
   C. Business ethics comprises values and standards that guide behavior in the world of business.
   D. **Principles** are specific and pervasive boundaries for behavior that are universal and absolute.
   E. **Values** are used to develop norms that are socially enforced.
      1. Investors, employees, customers, interest groups, the legal system, and the community often determine whether a specific action is right or wrong and ethical or unethical.

II. Why Study Business Ethics?

A. A Crisis in Business Ethics

1. Reports of unethical activities (accounting fraud, insider trading, falsifying documents, deceptive advertising, defective products, bribery, abusive behavior, harassment, and employee theft) are cited as evidence of declining ethical standards, not only in business, but also in government, science, and sports.
2. Regardless of what an individual believes about a particular action, if society judges it to be unethical or wrong, whether correctly or not, that judgment directly affects the organization's ability to achieve its business goals.

B. Reasons for Studying Business Ethics

1. Studying business ethics is valuable for several reasons.
   a. An individual's personal values and moral philosophies are only one factor in the ethical decision-making process—a person's personal values and business ethics are not the same thing.
   b. Being a good person and having sound personal ethics may not be sufficient to handle the ethical issues that arise in a business organization.
   c. Business strategy decisions involve complex and detailed discussions, and a high level of personal moral development may not prevent an individual from violating the law in an organizational context.
   d. The values people learn from family, religion, and school may not provide specific guidelines for complex business decisions.
2. Studying business ethics helps businesspeople begin to identify ethical issues, recognize the approaches available to resolve them, learn about the ethical decision-making process and ways to promote ethical behavior, and begin to understand how to cope with conflicts between personal values and organizational values.

III. The Development of Business Ethics

A. Before 1960: Ethics in Business

1. Prior to 1960 the United States went through several agonizing phases, questioning the concept of capitalism.
   a. In the 1920s, the progressive movement defined a "living wage" as income sufficient for education, recreation, health, and retirement. Businesses were asked to check unwarranted price increases and any other practices that would hurt a family's "living wage."
   b. In the 1930s, the New Deal specifically blamed business for the country's economic woes. Businesses were asked to work more closely with the government to raise family income.
   c. By the 1950s, the New Deal had evolved into the Fair Deal, defining such matters as civil rights and environmental responsibility as ethical issues that businesses had to address.
2. Until 1960, ethical issues related to business were often discussed within the domain of theology or philosophy. Individual moral issues related to business were addressed in churches, synagogues, and mosques.
   a. Within the Roman Catholic Church, social ethics included concern for morality in business, workers' rights, and living wages, for humanistic values rather than materialistic ones, and for improving the conditions of the poor.
   b. Protestants developed ethics courses in their seminaries and schools of theology and addressed issues concerning morality and ethics in business.
   c. Such religious traditions provided a foundation for the future field of business ethics, with each religion applying its moral concepts not only to business but also to government, politics, family, personal life, and all other aspects of life.

B. The 1960s: The Rise of Social Issues in Business

1. American society turned to causes, and an antibusiness attitude developed as critics attacked the perceived vested interests that controlled both the economic and political sides of society—the so-called military-industrial complex.
2. The 1960s saw the decay of inner cities and the growth of ecological problems.
3. The rise of **consumerism**—activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers—began, and President John F. Kennedy announced a **Consumers' Bill of Rights** (the right to safety, the right to be informed, the right to choose, and the right to be heard).
4. Consumer activists, led by Ralph Nader, fought successfully for consumer-protection legislation.
5. Activities that could destabilize the economy or discriminate against any class of citizens began to be viewed as unethical and unlawful.

C. The 1970s: Business Ethics as an Emerging Field

1. Business professors began to teach and write about corporate **social responsibility:** an organization's obligation to maximize its positive impact on stakeholders and to minimize its negative impact.
2. Philosophers applied ethical theory and philosophical analysis to structure the discipline of business ethics.
3. As social demands grew, many businesses realized that they had to address ethical issues more directly.
4. The Foreign Corrupt Practices Act was passed during Jimmy Carter's presidency, making it illegal for U.S. businesses to bribe government officials in other countries.
5. Major business ethics issues had emerged, such as bribery, deceptive advertising, price collusion, product safety, and the environment.
6. Academic researchers sought to identify ethical issues and to describe how businesspeople might choose to act in particular situations.

D. The 1980s: Consolidation

1. Membership in business ethics organizations increased, while centers of business ethics provided publications, courses, conferences, and seminars.
   a. Many firms established ethics and social policy committees to address ethical issues.
2. The **Defense Industry Initiative on Business Ethics and Conduct** (DII) was developed to guide corporate support for ethical conduct. The DII includes six principles:
   a. Development and distribution of understandable, detailed codes of conduct.
   b. Provision of ethics training and development of communication tools to support the periods between training.
   c. Creation of an open atmosphere in which employees feel comfortable reporting violations, without fear of retribution.
   d. Performance of extensive internal audits and development of effective internal reporting and voluntary disclosure plans.
   e. Preservation of the integrity of the defense industry.
   f. Adoption of a philosophy of public accountability.
3. The Reagan/Bush era ushered in the belief that self-regulation, rather than regulation by government, was in the public's interest.

E. The 1990s: Institutionalization of Business Ethics

1. The Clinton administration continued to support self-regulation and free trade, although it strengthened regulation in some areas.

2. The **Federal Sentencing Guidelines for Organizations,** which were based on the six principles of the Defense Industry Initiative, codified into law incentives to reward organizations for taking action, such as developing effective internal legal and ethical compliance programs, in order to prevent misconduct,.

a. The guidelines mitigate penalties for businesses that strive to root out misconduct and establish high ethical and legal standards. On the other hand, under the FSGO, if a company lacks an effective ethical compliance program and its employees violate the law, it can incur severe penalties.

b. The guidelines focus on firms taking action to prevent and detect business misconduct in cooperation with government regulation.

F. The Twenty-First Century: A New Focus on Business Ethics

1. New evidence emerged in the early 2000s that more than a few business executives and managers had not fully embraced the public's desire for high ethical standards.

2. To address a loss of confidence in financial reporting and corporate ethics, Congress passed the **Sarbanes-Oxley Act,** the most far-reaching change in organizational control and accounting regulations since the Securities and Exchange Act of 1934. The law:

a. made securities fraud a criminal offense and stiffened penalties for corporate fraud.

b. created an accounting oversight board that requires corporations to establish codes of ethics for financial reporting and to develop greater transparency in financial reports to investors and other interested parties.

c. requires top executives to sign off on their firms' financial reports, and they risk fines and long jail sentences if they misrepresent their companies' financial position.

d. requires company executives to disclose stock sales immediately and prohibits companies from giving loans to top managers.

3. A 2004 amendment to the **FSGO** requires that a business's governing authority be well informed about its ethics program with respect to content, implementation, and effectiveness.

4. In spite of legislation promoting better accountability in financial reporting and other measures to improve ethics, public trust of corporations (particularly financial corporations) is at a very low point.

5. Around the world, the basic assumptions of capitalism are under debate in the wake of the most recent financial industry meltdown and global recession.

a. There is a renewed need to address the level of ethical, legal and compliance regulations needed to help businesses serve the public interest.

IV. Developing an Organizational and Global Ethical Culture

A. The current trend is away from legally based compliance initiatives in organizations and towards cultural initiatives that make ethics a part of core organizational values.

1. To develop more ethical corporate cultures, many businesses are communicating core values to their employees by creating ethics programs and appointing ethics officers to oversee them.

2. The ethical component of a corporate culture relates to the values, beliefs, and established and enforced patterns of conduct that employees use to identify and respond to ethical issues.

B. The term **ethical culture** can be viewed as the character or decision-making process that employees use to determine whether their responses to ethical issues are right or wrong.

1. Is used to describe the component of corporate culture that captures the rules and principles that an organization defines as appropriate conduct.

C. Globally, businesses are working more closely together to establish standards of acceptable behavior.

1. The development of global codes of ethics, such as the Caux Round Table, highlights common ethical concerns for global firms.

V. The Benefits of Business Ethics

A. The field of business ethics continues to change rapidly as more firms recognize the benefits of improving ethical conduct and the link between business ethics and financial performance.

B. Both research and examples from the business world demonstrate that building an ethical reputation among employees, customers, and the general public pays off.

C. Ethics Contributes to Employee Commitment

1. Employee commitment comes from employees who believe their future is tied to both the future of the organization, and their willingness to make personal sacrifices for that organization.

a. The more a company is dedicated to taking care of its employees, the more likely it is that the employees will take care of the organization.

b. Issues that may foster the development of an ethical climate for employees include the absence of abusive behavior, a safe work environment, competitive salaries, and the fulfillment of all contractual obligations toward employees, as well as social programs such as stock ownership plans and community service.

2. Employees' perception of their firm as having an ethical environment leads to performance-enhancing outcomes within the organization.

a. Trusting relationships within an organization between both managers and their subordinates and upper management contribute to greater decision-making efficiencies.

b. When employees see values such as honesty, respect, and trust applied in the workplace, they feel less pressure to compromise ethical standards, observe less misconduct, are more satisfied with their organizations overall, and feel more valued as employees.

3. Research indicates that the ethical climate of a company matters to employees.

D. Ethics Contributes to Investor Loyalty

1. Investors today are increasingly concerned about the ethics, social responsibility, and reputation of companies in which they invest.

a. Investors recognize that an ethical climate provides a foundation for efficiency, productivity, and profits, while negative publicity, lawsuits, and fines can lower stock prices, diminish customer loyalty, and threaten a company's long-term viability.

b. Investors look at the bottom line for profits, the potential for increased stock prices or dividends, and for any potential flaws in the company's performance, conduct, and financial reports.

i) Executives may spend considerable time communicating with investors about their firms' reputation and financial performance and trying to attract them to the company's stock.

c. The issue of drawing and keeping investors is a critical one for CEOs; gaining investors' trust and confidence is vital for sustaining the financial stability of the firm.

E. Ethics Contributes to Customer Satisfaction

1. Customer satisfaction is one of the most important factors in successful business strategy.
    a. By focusing on customer satisfaction, a company continually deepens the customer's dependence on the company, and as the customer's confidence grows, the firm gains a better understanding of how to serve the customer.
    b. Successful businesses provide an opportunity for customer feedback, which can engage the customer in cooperative problem solving.
2. Research indicates that a majority of consumers place social responsibility ahead of brand reputation or financial factors when forming impressions of companies.
3. A strong organizational ethical environment usually focuses on the core value of placing customers' interests first.
    a. An ethical climate that focuses on customers incorporates the interests of all employees, suppliers, and other interested parties in decisions and actions.
1. An ethical culture that focuses on customers incorporates the interests of all employees, suppliers, and other interested parties in decisions and actions.
    b. Ethical conduct toward customers builds a strong competitive position that has been shown to positively affect both business performance and product innovation.

F. Ethics Contributes to Profits

1. A company cannot nurture and develop an ethical organizational climate unless it has achieved adequate financial performance in terms of profits.
    a. Many studies have found a positive relationship between corporate social responsibility and business performance.
    b. Companies convicted of misconduct experience a significantly lower return on assets and sales than firms that have not faced such charges.
2. There are many examples of companies that have experienced significant performance declines after discovery of their failure to act responsibly toward various stakeholders.
3. Being ethical pays off with better performance.

VI. Our Framework for Studying Business Ethics

A. Part One provides an overview of business ethics, its importance, emerging issues, and the role of various stakeholder groups in social responsibility and corporate governance.

B. Part Two focuses on ethical issues and the institutionalization of business ethics, such as business issues that create ethical decision making in organizations and the institutionalization of business ethics including both mandatory and voluntary societal concerns.

C. Part Three explores the ethical decision-making process and then looks at both individual and organizational factors that influence decisions.

D. Part Four explores systems and processes associated with implementing business ethics into global strategic planning.

1. The more you know about how individuals make decisions, the better prepared you will be to cope with difficult ethical decisions.
2. It is your job to make the final decision in an ethical situation that affects you: Sometimes that decision may be right; sometimes it may be wrong.

“RESOLVING ETHICAL BUSINESS CHALLENGES” NOTES

This is a classic case of conflicting values. The instructor may wish to ask why certain students believe there is an ethical component whereas others do not. The instructor may also find that there is a significant difference of opinion between business versus nonbusiness student perceptions on this case. Additional pressure can be added by the instructor by assuming that Frank is married, has financial difficulties, is operating in a weak economy, is likely to be fired, etc.

The instructor may also wish to discuss where the line is between developing client relationships and losing one’s values to the corporation. Note that Frank’s superior, Amber, assumes the role of the company to Frank. Given the hierarchical nature of the company, Amber is urging Frank to do something she feels is correct; however, the situation is devised such that the instructor can point out that Amber seems to be making decisions contrary to the firm’s culture.

Note the following interchange: Frank had never been in a situation like this before, so he excused himself and called Amber about what he was thinking about doing. “Are you kidding!” responded Amber. “Why are you even calling me on this? I’ll find the money somewhere to pay for this.” Frank asked, “Is this OK with Acme?” “You let me worry about that,” was Amber’s reply. The situation was developed to demonstrate that even though a superior may ask an employee to do something, it may not be in accordance with company policies.

CHAPTER 2

Stakeholder Relationships, Social Responsibility, and Corporate Governance

SUMMARY

In this chapter, we first focus on the concept of relationships between businesses and various stakeholder groups, and examine how a stakeholder framework can help us understand organizational ethics. Then we identify stakeholders and the importance of a stakeholder orientation. Using the stakeholder framework, social responsibility is explored, including the various dimensions of social responsibility. Next, corporate governance as a dimension of social responsibility and ethical decision making is covered in order to provide an understanding of the importance of oversight in responding to stakeholders. Finally, we provide the steps for implementing a stakeholder perspective in creating both social responsibility and ethical decisions in business.

INSTRUCTOR NOTES FOR “AN ETHICAL DILEMMA”

Carla’s dilemma is whether to report her superior’s “moonlighting” to higher authorities. Jack is taking away business that could potentially be considered A&A’s even though he claims otherwise. Students may want to discuss the implied threat to Carla, as well as her own minor infractions of the rules. Most will agree that Jack’s behavior is in flagrant disregard to the overall integrity of A&A’s business practices. Students should also discuss Jack’s rationalization of his behavior relative to how people can make bad choices when they feel economic and family pressure on the job. Students may want to explore the ramifications of Carla exposing Jack and the potential problems that could occur if A&A decided to let her go. The instructor may wish to point out the fact that, in interviews, many whistleblowers discourage people from choosing the path that they took because of the tremendous physical and psychological pressures that it entails; yet, when asked if they would do it again, the response is invariably yes. Carla was correct that most whistleblowers receive little support from peers, can experience negative performance appraisals, and often leave organizations.

LECTURE OUTLINE

I. Stakeholders Define Ethical Issues in Business

A. In a business context, customers, investors and shareholders, employees, suppliers, government agencies, communities, and others who have a "stake" or claim in some aspect of a company's products, operations, markets, industry, and outcomes are known as **stakeholders.**

1. Stakeholders are influenced by business, but they also have the ability to affect businesses. They can even force businesses to change their practices.

    a. They apply their values and standards to many diverse issues that may or may not directly affect an individual stakeholder's welfare.

    b. In the wake of the 2008 financial meltdown, gatekeepers such as accountants, attorneys, and bankers are becoming more powerful as stakeholder groups.

CHAPTER 2: STAKEHOLDER RELATIONSHIPS, SOCIAL RESPONSIBILITY, AND CORPORATE GOVERNANCE

Accounting: Fraud

Betty King is the new controller at EZdot.com. The previous controller was fired for “incompetence.” Ezdot.com has some severe cash-flow problems that have become exacerbated by the recent acquisition of another firm. The financials of both EZ and the other firm are as clear as Mississippi mud. The new company has 450 employees that have a “can do” attitude. EZ’s bank is seriously concerned about the company’s viability. Betty discovers that her new boss, Ryan, who is EZ’s president and major shareholder, is holding a substantial amount of checks from customers in his desk without telling her. Ryan also plays with the firm’s float on a daily basis. (Float is the money that is used on a day-today basis for operations.) It’s close to tax time. The bank wants to know what is occurring and has a meeting with Betty today. Betty should:

a. explain to the bank exactly what is occurring at EZ.
b. say nothing and continue the status quo.
c. talk to Ryan and explain her concerns.
d. give hints to the bank about EZ’s situation.
e. attempt to cover up the problems and stall the bank’s auditors.

Instructor notes:

Option a: Good choice, but the probability of losing her job is high. We also don’t know if the company is privately or publicly held. This makes a difference between fraud and something else.

Option b: She should know that the actions of the president are against general accounting standards.

Option c: Good choice, but then what happens?

Option d: This is the “little bit pregnant” choice.

Option e: It might be a quick fix solution that becomes a nightmare later on.

Finance: Insider Information

Joseph is having lunch with Rich, another credit officer at a large bank. He hears that a major client is in financial trouble and will probably default on a big loan, thus causing the company's stock to slide. Joseph knows that this client has a large loan with his bank as well. He owns a large portion of stock with the failing company. After lunch the debt-ridden client calls Joseph and tells him about a major contract that they’ve secured and asks for another loan. Joseph should:

a. ask for full payment on the first loan immediately, sell his stock, and stall about the other loan.
b. grant the loan and sell his stock.
c. tell the client that he knows about the imminent default, refuse the loan, and quickly sell his stock.
d. tell the client that he knows about the imminent default and refuse to give the new loan.
e. ask for full payment on the first loan immediately, sell his stock, grant the second loan, and tell his friend all about it. Instructor notes:

Option a: If caught he goes to jail.

Option b: Illegal.

Option c: Illegal.

Option d: Good choice, but his friend Rich will probably get sued for divulging confidential information.

Option e: Illegal.

Management: Workplace Policies/Discrimination/Harassment

Wayne is a manager for Cool Lots, an eating and drinking establishment with a beach motif that is targeted to young singles. Corporate headquarters sent Wayne a letter indicating that waitresses would be required to wear new attire. The new attire consists of tight tank tops and short shorts or bikinis. Wayne thinks the vague wording in the letter tells him he should fire women whose bodies aren't appropriate for the new attire and hire those whose bodies are. The current waitresses have seen the new outfits and are less than happy. In fact they are very upset. Wayne should:

a. disregard the letter and keep the status quo.
b. fire the waitresses who complain and implement the new policy.
c. implement the tank tops and shorts but not the bikinis.
d. fire the waitresses whose physical appearance does not conform to the underlying meaning of the letter and implement the new policy.
e. implement the new policy but not fire any waitresses.

Instructor notes:

The instructor will get significantly varied responses by gender.

Option a: You've just gone against company policy.

Option b: Possible discrimination/harassment suit.

Option c: This option makes sense to some, but the reasoning or justifications are greatly varied.

Option d: Possible discrimination/harassment suit.

Option e: Possible discrimination/harassment suit.

Marketing: Affirmative Action

Beth, a junior account executive at a small advertising agency, has been offered a promotion because the acting executive was fired. The executive was fired because a major client that could prevent bankruptcy for the firm wants to replace the African-American actors used in a commercial with Caucasians. The promotion is contingent on her doing what the client wishes. Beth should:

a. refuse the promotion.
b. accept the promotion.
c. expose the incident to the media.
d. accept the promotion but expose the incident to the media.
e. accept the promotion and demand more money for the title.

Instructor notes:

Some students will not understand that there is an ethical issue involved. Option a: Good choice, but hurts the wallet.

Option b: Possible affirmative action suit against the client. Possible repercussions with your career at other agencies.

Option c: What about your allegiance to the company?

Option d: Probable dead ender for your career with your present firm.

Option e: Egoists choose this alternative.

CASE 2

Wal-Mart: The Future is Sustainability

The Wal-Mart case was written to give students another perspective on one of the largest employers in the world. Over the years Wal-Mart has faced a large number of lawsuits and allegations of unethical behavior. Students will likely have heard stories of unethical and illegal activities involving Wal-Mart, and should be encouraged to share them in class. However, Wal-Mart has gained significant ground in recent years in regaining its reputation. The company has been a leader of adopting energy-efficient and renewable energy technology, offers a broad selection of organic items, and has improved its employee rights record. Nevertheless, it is still Wal-Mart, the largest corporation in the world, and many people remain hesitant to accept that Wal-Mart has fundamentally changed its ways. After having students read this case, instructors may want to ask whether they believe Wal-Mart is inherently unethical, or whether they are convinced the giant has changed its ways.

As Wal-Mart has grown, its strategy has changed. Could its new push into sustainability and social responsibility be driven by profits, not by a real desire to clean up its act? In the 1970s, Wal-Mart's strategy was to go into secondary markets, meaning communities with fewer than 10,000 residents. The company's logistical strategy was to grow out from Bentonville, Arkansas in order to gain channel economies of scale. By attacking secondary towns, the competition, normally small independents, could not compete on price and closed down. This, combined with the throw-away culture of the times (low quality-low price), helped Wal-Mart grow rapidly which enabled it to enter primary markets (communities over 10,000). During the 1980s outsourcing to lesser developed countries became the norm. In the 1980s, Wal-Mart took the hyper-market store concept and tailored it to the United States by introducing products and services that challenged the competition. Now, after ruthlessly expanding into every market possible, driving down prices, Wal-Mart has embraced a new, supposedly enlightened approach to doing business. Instructors should ask students what they think Wal-Mart's motivation is.

Vertically integrated channel structures and their impact on competition is another issue that instructors could address in conjunction with this case. In the twenty-first century, one sees more training in eliminating conflict within the channel structure, so that companies can deliver the right products at the right time and place at the lowest costs. Implicit in this concept is collusion, not with competitors across an industry, but collusion within the channel. It becomes imperative to have a free flow of information to be able to implement TQM and the JIT inventory systems that reduce safety stock while increasing profitability. Many countries adhere to a managed competition model, but within the United States any form of collusion that substantially reduces competition can be considered illegal under many different laws. Students may wish to discuss whether Wal-Mart's form of negotiating the best prices for products, and their sales strength, crosses the boundary from ethical and legal to unethical and illegal.

DISCUSSION

1. Do you think Wal-Mart is doing enough to become more sustainable?

Students often are suspicious of Wal-Mart's intentions. This is understandable given Wal-Mart's history of managing stakeholders. In the past, all of Wal-Mart's moves have been carefully calculated to increase market share, grow the company, and satisfy investors. However, what Wal-Mart has done to clean up its image and to improve its social responsibility and environmental track records should not be discounted. Given Wal-Mart's size, it has enormous power to enact change throughout the supply chain. It also is in a tremendous position to educate consumers about important issues. The company has made a sustained effort to make its stores more eco-friendly, reduce emissions, improve employee benefits, and better track the carbon footprint of its supply chain. It will be up to students whether they think this is enough, or whether they think Wal-Mart should do more—given its enormous size and huge revenues.

2. What are the problems that Wal-Mart has faced, and what has the company done to address them?

Wal-Mart has been involved in many ethical issues that have been a major source of news. Nearly every issue a company could face, Wal-Mart has dealt with it. Wal-Mart is the largest retailer in the world, and because of this it receives a huge amount of scrutiny from many different stakeholder groups over every decision that the company makes. Students can discuss any number of issues in this question—many of them are outlined in the case, along with the means Wal-Mart has used to address those issues. Because Wal-Mart is so large, employs so many people, and represents such a large portion of the global economy, it can expect to be a major target from stakeholders concerned about issues such as employee benefits, outsourcing, and the environment, long into the future.

3. Why has Wal-Mart tended to improve performance when other retail outlets have been suffering financially?

The answer to this question can be either simple or complex. Simply put, Wal-Mart is ubiquitous and has a reputation of selling goods cheaper than nearly anyone else. Because most Americans are situated close to a Wal-Mart, and because the goods are cheaply priced, when an economic recession hits and consumers must cut back on expenditures, a larger percentage of their spending money goes to stores like Wal-Mart. It offers good deals on nearly everything a consumer might want to buy. Even when many people would prefer to spend their money elsewhere, in tough economic times, Wal-Mart is able to fill a need that other stores cannot.

The more complicated answer to this question involves an ethical dimension as well. Because it can dictate manufacturing standards and prices, and can deliver products less expensively than other retailers, Wal-Mart can undercut other stores on prices in order to build up market share (it has used this strategy on everything from books to coffins). Wal-Mart is sometimes willing to take a loss on a certain product category in order to draw in customers, who then hopefully will make up for the loss by purchasing goods in other categories. Part of why Wal-Mart is able to sell goods so cheaply is because it dictates to suppliers how much it is going to pay for items. This means that the onus is on suppliers to cut costs or lose Wal-Mart as a client, which is not a desirable scenario for most manufacturers. Suppliers may seek lower-cost workers or cut corners in other ways to fill Wal-Mart's desire for cheap goods. This leads many people to wonder: what is the true cost of cheap goods? It will be interesting to see whether Wal-Mart's new sustainability initiatives affect the costs of goods. Instructors may ask students to do further research on Wal-Mart and its social responsibility strategies.