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Solutions Manual for Business Ethics Ethical Decision Making and Cases 13th Ferrell

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Purpose and Perspective of the Chapter

The purpose of this chapter is to provide an overview of business ethics. First, we develop a definition of business ethics and discuss why it has become an important topic in business education. Next, we examine the evolution of business ethics in North America and explore the benefits of ethical decision making in business. Finally, we provide a framework for examining business ethics in this text.

Cengage Supplements

The following product-level supplements provide additional information that may help you in preparing your course. They are available in the Instructor Resource Center.

- Transition Guide (provides information about what's new from edition to edition)
- Educator's Guide (describes assets in the platform with a detailed breakdown of activities by chapter with seat time)
- PowerPoint (provides text-based lectures and presentations)
- Test Bank (contains assessment questions and problems)
- Role Play Exercises (provides in-class behavioral simulation exercises)
- Guide to Teaching Online (provides information about the key assets within the product and how to implement/facilitate use of the assets in synchronous and asynchronous teaching environments)
- Accelerated Course Syllabus (provides guidance on the recommended delivery of course materials given a 5-week, 8-week, 12-week, and 16-week course)
- MindTap User Guide (provides information on how to navigate and use MindTap)

Chapter Objectives

The following objectives are addressed in this chapter:

1.1 Explore conceptualizations of business ethics from an organizational perspective

1.2 Examine the historical foundations and evolution of business ethics

1.3 Provide evidence that ethical value systems support business performance

1.4 Describe the extent of ethical misconduct in the workplace and the pressures for unethical behavior

Complete List of Chapter Activities and Assessments

For additional guidance refer to the Teaching Online Guide.

Chapter Objective	PPT slide	Activity/Assessment	Duration
1.1	3	PowerPoint: Icebreaker	5 minutes
1.1	7	PowerPoint: Knowledge Check	2 minutes

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1.3	23–24	PowerPoint: Discussion Activity 1	10 minutes
1.3	30–31	PowerPoint: Debate Issue	15 minutes
1.4	37–38	PowerPoint: Discussion Activity 2	10 minutes
1.1–1.4	N/A	MindTap: Learn It: Concept Check Quiz: Chapter 01 The Importance of Business Ethics	10–15 minutes
1.1–1.4	N/A	MindTap: Assignment: Chapter 01 The Importance of Business Ethics	25 minutes
1.1–1.4	N/A	MindTap: Video Case: Chapter 01 The Importance of Business Ethics	20 minutes

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Key Terms

business ethics: Comprises organizational principles, values, and norms that may originate from individuals, organizational statements, or from the legal system that primarily guide individual and group behavior in the world of business

Consumers' Bill of Rights: From President John F. Kennedy's 1962 "Special Message on Protecting the Consumer Interest" that outlined four basic consumer rights: the right to safety, the right to be informed, the right to choose, and the right to be heard

corporate social responsibility (CSR): An organization's obligation to maximize its positive impact on stakeholders and minimize its negative impact

Defense Industry Initiative on Business Ethics and Conduct: An organization developed to guide corporate support for ethical conduct

Dodd–Frank Wall Street Reform and Consumer Protection Act: Legislation that addressed some of the issues related to the financial crisis and recession and designed to make the financial services industry more ethical and responsible

Environmental Social Governance (ESG): A framework for evaluation of firm performance in the areas of environmental, social, and governance

ethical culture: Acceptable behavior as defined by the company and industry; reflects the integrity of decisions made and is a function of many factors, including corporate policies, top management's leadership on ethical issues, the influence of coworkers, and the opportunity for unethical behavior

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ethics: Behavior or decisions made within a groups' values or morals

Federal Sentencing Guidelines for Organizations (FSGO): Guidelines that codified into law incentives to reward organizations for taking action to prevent misconduct, such as developing effective internal legal and ethical compliance programs

Global Compact: Set of 10 principles concerning human rights, labor, the environment, and anti-corruption; the purpose is to create openness and alignment among business, government, society, labor, and the United Nations

moral dilemma: Two or more morals in conflict with one another

morals: A person's personal philosophies about what is right or wrong

principles: Specific and pervasive boundaries for behavior that should not be violated

Sarbanes–Oxley Act: The most far-reaching change in organizational control and accounting regulations since the Securities and Exchange Act of 1934, which made securities fraud a criminal offense and stiffened penalties for corporate fraud

value dilemma: Two or more beliefs/ideals in conflict with one another

values: Enduring beliefs and ideals that are socially enforced

workplace integrity: The pressure to compromise organizational standards, observed misconduct, reporting of misconduct when observed, and retaliation against reports

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What's New in This Chapter

The following elements are improvements in this chapter from the previous edition:

- Added new An Ethical Dilemma feature
- Updated Table 1-1: Observed Misconduct in the U.S. Workforce with new data
- Updated Figure 1-1: Global Trust in Industry Sectors with new data
- Updated Table 1-2: Timeline of Ethical and Socially Responsible Concerns to include the 2010s
- Expanded the timeline of business ethics development
- Added new section "The 2010s: New Challenges in Business Ethics," which discusses The Dodd–Frank Wall Street Reform and Consumer Protection Act, anti-bribery legislation, the multigenerational workplace, and the legal and regulatory environment
- Added new section "The 2020s and Beyond," which discusses Environmental Social Governance (ESG), climate change, artificial intelligence (AI), and big data

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- Added new Business Ethics in the Real World boxed feature: "The Nuts and Bolts of the 'Robot Tax' Debate"
- Added new Debate Issue boxed feature: "Does Being Ethical Result in Better Performance?"
- Updated Table 1-3: Our Framework for Studying Business Ethics

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Chapter Outline

In the outline below, each element includes references (in parentheses) to related content. "#.#" refers to the chapter objective; "PPT Slide #" refers to the slide number in the PowerPoint deck for this chapter (provided in the PowerPoints section of the Instructor Resource Center). Introduce the chapter and use the Ice Breaker in the PPT if desired. Review learning objectives for Chapter 1. (PPT Slide 2).

I. Business Ethics Defined (1.1, PPT Slides 4–7)

a. Business ethics is a complicated and controversial topic. Highly visible business ethics issues influence the public's attitudes toward business and can destroy trust.
   - The field of business ethics concerns questions about whether specific business practices are acceptable.
   - Business ethics is controversial, and there is no universally accepted approach for resolving ethical issues. Business ethics is controversial, and there is no universally accepted approach for resolving ethical issues.
   - Values and judgments play a critical role in the making of ethical decisions.

b. **Morals** refer to a person's personal philosophies about what is right or wrong.

c. **Business ethics** comprises organizational principles, values, and norms that may originate from individuals, organizational statements, or from the legal system that primarily guide individual and group behavior in the world of business.

d. **Principles** are specific and pervasive boundaries for behavior that should not be violated.

e. **Values** are enduring beliefs and ideals that are socially enforced.
   - 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.

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f. Morals, values, and principles describe positive or good traits, which are often applied to the business organization or industry.
    - They usually represent what is called "best practices."

g. **Ethics** is defined as behavior or decisions made within a group's values or morals.
    - In business ethics, right and wrong behavior is defined by the group, which might be a company or an industry.
    - Within corporate culture there are rules and regulations—both written and unwritten—that determine what decisions employees consider right or wrong as it relates to the firm.

II. Why Study Business Ethics? (1.4, PPT Slides 8–13)

a. A Crisis in Business Ethics
    - Ethical misconduct is a major business concern, and organizations are under greater scrutiny than ever by stakeholders.
    - The Global Business Ethics Survey (GBES) measures workplace integrity in leading world economies. (Table 1-1)
        - **Workplace integrity** is the pressure to compromise organizational standards, observed misconduct, reporting of misconduct when observed, and retaliation against reports.
    - There is no doubt negative publicity associated with major misconduct lowered the public's trust in certain business sectors. (Figure 1-1)
    - Decreased trust leads to a reduction in customer satisfaction and customer loyalty, which in turn can negatively impact the firm or industry.

b. Specific Issues
    - Misuse of company resources, abusive behavior, harassment, accounting fraud, conflicts of interest, defective products, bribery, and employee theft are all problems cited as evidence of declining ethical standards in business and in other areas like government or sports.
    - Misconduct can occur in any organization.
    - Regardless of an individual's beliefs about a particular action, if society judges it to be unethical or wrong, new legislation usually follows.
    - Whether correct or not, that judgment directly affects a company's ability to achieve its business goals

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c. The Reasons for Studying Business Ethics
    - Studying business ethics is valuable for several reasons.
        - Business ethics is not merely an extension of an individual's own personal ethics—an individual's personal values and moral philosophies are only one factor in the ethical decision-making process.
            - A **moral dilemma** is two or more morals in conflict with one another, defined as a situation where the person is faced with multiple choices, all of which are undesirable as defined by the person.
            - A **value dilemma** is two or more beliefs/ideals in conflict with one another. It is the same as a moral dilemma, only that the individual's beliefs are grounded in societal norms.
        - Being a good person with sound personal ethics is not sufficient to handle the ethical issues that arise in a business organization.
        - Business strategy decisions involve complex and detailed discussions. A high level of personal moral development may not prevent an individual from violating the law in an organizational context.
        - The morals people learn from family, religion, and school may not provide specific guidelines for complex business decisions.
    - 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 (1.2, PPT Slides 14–25)

a. The study of business ethics in North America has evolved through distinct stages and continues to evolve in the twenty-first century. (Table 1–2)

b. Before 1960: Ethics in Business
    - Before 1960, the United States went through several phases questioning the concept of capitalism.
        - In the 1920s, the progressive movement sought to provide citizens with a "living wage," or income sufficient for education, recreation, health, and retirement.
        - 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.

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- 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.

- Until 1960, ethical issues related to business were discussed within the domain of theology or philosophy.
  - Catholic social ethics included concern for morality in business, workers' rights, and living wages; for humanistic values; and for improving the conditions of the poor.
  - The Protestants work ethic encouraged individuals to be frugal, to work hard, and to attain success in the capitalistic system.
  - Religious traditions provided a foundation for the future field of business ethics, with the first book on business ethics published in 1937 demonstrating the necessity of the ethical treatment of different stakeholders.

c. The 1960s: The Rise of Social Issues in Business
   - American society turned to causes such as consumerism. 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.
   - The 1960s saw the decay of inner cities and the growth of ecological problems.
   - The rise of consumerism—activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers—began, and President John F. Kennedy outlined a **Consumers' Bill of Rights** (the right to safety, the right to be informed, the right to choose, and the right to be heard).
   - The modern consumer movement has roots in 1965 and Ralph Nader's Unsafe at Any Speed. His group fought successfully for consumer-protection legislation.
   - President Johnson's Great Society told the business community that the U.S. government's responsibility was to provide the citizen with some degree of economic stability, equality, and social justice. Activities that could destabilize the economy or discriminate against any class of citizens began to be viewed as unethical and unlawful.

d. The 1970s: Business Ethics as an Emerging Field
   - Business professors began to teach and write about **corporate social responsibility (CSR)**, an organization's obligation to maximize its positive impact on stakeholders and to minimize its negative impact.

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- Philosophers applied ethical theory and philosophical analysis to structure the discipline of business ethics.
- As social demands grew, many businesses realized that they had to address ethical issues more directly.
- The Foreign Corrupt Practices Act, passed under Jimmy Carter, made it illegal for U.S. businesses to bribe government officials of other countries.
- Major business ethics issues emerged by the late 1970s, such as bribery, deceptive advertising, price collusion, product safety, and ecology.
- Academic researchers sought to identify ethical issues and to describe how businesspeople might choose to act in particular situations.

e. The 1980s: Business Ethics Reaches Maturity

- Business ethics became a legitimate field of study. Membership in business ethics organizations increased, while centers of business ethics provided publications, courses, conferences, and seminars.
  - Stakeholder theory, pioneered by R. Edward Freeman, had a major impact on strategic management and corporations' views of their responsibilities.
  - Many firms established ethics and social policy committees to address ethical issues.
- The **Defense Industry Initiative on Business Ethics and Conduct (DII)** was developed to guide corporate support for ethical conduct. The DII includes six principles:
  - Development and distribution of understandable, detailed codes of conduct.
  - Provision of ethics training and development of communication tools to support the periods between training.
  - Creation of an open atmosphere in which employees feel comfortable reporting violations, without fear of retribution.
  - Performance of extensive internal audits and development of effective internal reporting and voluntary disclosure plans.
  - Preservation of the integrity of the defense industry.
  - Adoption of a philosophy of public accountability.
- The Reagan/Bush era ushered in the belief that self-regulation, rather than regulation by government, was in the public's best interest. The rules of business were changing at a phenomenal rate because of less regulation.

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f. The 1990s: Institutionalization of Business Ethics
    - The Clinton administration continued to support self-regulation and free trade, although it strengthened regulation in some areas like health-related social issues.
    - The **Federal Sentencing Guidelines for Organizations (FSGO)**, 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.
        - The guidelines mitigate penalties for businesses that strive to minimize misconduct and establish high ethical and legal standards.
        - Under the FSGO, if a company lacks an effective ethical compliance program and its employees violate the law, it can incur severe penalties.
        - The guidelines focus on firms taking action to prevent and detect business misconduct in cooperation with government regulation.

g. The 2000s: Twenty-First Century of Business Ethics
    - 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.
    - To address a loss of confidence in financial reporting and corporate ethics, Congress passed the **Sarbanes-Oxley Act** in 2002, the most far-reaching change in organizational control and accounting regulations since the Securities and Exchange Act of 1934. The law:
        - Made securities fraud a criminal offense and stiffened penalties for corporate fraud.
        - 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.
        - Requires top executives to sign off on their firms' financial reports, risking fines and jail if they misrepresent their companies' financial positions.
        - Requires company executives to disclose stock sales immediately and prohibits companies from giving loans to top managers.
    - Amendments to the FSGO require a business's governing authority to be well informed about its ethics program with respect to content, implementation, and effectiveness.

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- President Barack Obama led the passage of legislation to stimulate an economic recovery from the Great Recession as well as legislation focusing on affordable healthcare.

h. The 2010s: New Challenges in Business Ethics

- To address lingering issues related to the financial crisis, the **Dodd-Frank Wall Street Reform and Consumer Protection Act** represents the most sweeping financial legislation since Sarbanes-Oxley Act and possibly since the Great Depression.
- Enforcement of the FCPA became a top priority for the SEC.
  - Outside of the United States, the U.K. instituted sweeping anti-bribery legislation 2010 with the Bribery Act.
    - It is the strictest legislation internationally, and it places the burden of proof on companies to show they have sufficient procedures in place to prevent bribery. The Bribery Act creates four main offenses:
      - (i) Offering, promising, or giving of an advantage;
      - (ii) Requesting, agreeing to receive, or accepting an advantage;
      - (iii) Bribery of a foreign public official; and
      - (iv) Failure by a commercial organization to prevent a bribe being paid to obtain or retain business or a business advantage (should an offense be committed it will be a defense that the organization has adequate procedures in place to prevent bribery).
- Intense distrust of corporate America coincided with the influx of Millennials into the workforce, the largest generation in the U.S. labor force.
  - Value authenticity and transparency
- Tension between increasing transparency and protecting privacy emerged in the 2010s.
  - A ruling in 2014 by the Court of Justice of the EU known as "the right to be forgotten" declared that people have the right to ask search engines to remove results for queries that include their name.
  - The EU passed the General Data Protection Regulation (GDPR) in 2016, requiring businesses to ask consumers for permission to collect data and respond to consumer inquiries about data usage within 72 hours, placing the burden on companies to protect information about their users.

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- In 2017, Donald Trump became the president based on promises to once again decrease regulation and eliminate environmental and financial regulations.
- The basic assumptions of capitalism have been questioned as countries around the world work to stabilize markets and question those who manage the finances of individual corporations and nonprofits.

i. The 2020s and Beyond
   - **Environmental Social Governance (ESG)** relates to stakeholder demands for firms to protect the environment, contribute to social causes, and engage in conduct that is responsible and ethical.
     - Ethical issues related to gender equality and sexual harassment will continue to be major issues addressed through ESG.
     - Sustainability issues are causing firms and government to find solutions.
   - Both government and various stakeholders are demanding that responsible ethical conduct is a part of an organizations culture.
   - Many future ethical issues revolve around artificial intelligence (AI) and the acquisition and use of data.
     - Big data, an enabler of AI, which deals with massive data files obtained from structured and unstructured databases, has raised privacy concerns and ethical issues.

IV. Developing Organizational and Global Ethical Culture (1.3, PPT Slides 26–28)

a. Compliance and ethics initiatives in organizations are designed to help establish appropriate conduct and core values.
   - 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** refers to acceptable behavior as defined by the company and industry. The goal of an ethical culture is to minimize the need for enforced compliance of rules and maximize the use of principles that contribute to ethical reasoning in difficult or new situations.

c. Globally, businesses are working more closely together to establish standards of acceptable behavior. Many companies demonstrate their commitment to acceptable conduct by adopting globally recognized principles, such as the United Nations' Global Compact.
   - Companies that choose to abide by ISO 19600—a global compliance management standard—can use it to improve their approaches to

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compliance management, which can reassure stakeholders of their commitment toward ethics and compliance.

- The UN **Global Compact**—a set of ten principles concerning human rights, labor, the environment, and anti-corruption—is meant to create openness and alignment among business, government, society, labor, and the United Nations.

V. The Benefits of Business Ethics (1.3, PPT Slides 29–38)

a. The field of business ethics is rapidly changing as more firms recognize the benefits of improving ethical conduct and the link between business ethics and financial performance. (Figure 1-2)

b. Among the rewards for being more ethical and socially responsible in business are increased efficiency in daily operations, greater employee commitment, increased investor willingness to entrust funds, improved customer trust and satisfaction, and better financial performance.

c. Ethics Contributes to Employee Commitment

- Employee commitment comes from employees who believe their future is tied to that of the organization and their willingness to make personal sacrifices for that organization.
  - 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.
  - 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.
- Employees' perception of their firm as having an ethical environment leads to performance-enhancing outcomes within the organization.
  - An organization with a strong, ethical corporate culture helps to increase group creativity, decrease turnover, and increase job satisfaction.
  - Trusting relationships within an organization between both managers and their subordinates and upper management contribute to greater decision-making efficiencies.
  - When companies are viewed as highly ethical by their employees, they are six times more likely to keep their workers.

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- Research indicates that ethical culture matters to employees.

d. Ethics Contributes to Investor Loyalty
   - Investors today are increasingly concerned about the ethics, social responsibility, and the reputation of companies in which they invest.
   - 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.
   - Investors look at the bottom line for profits or the potential for increased stock prices or dividends, and for any potential flaws in the company's performance, conduct, and financial reports.
   - Gaining investors' trust and confidence is vital to sustaining the financial stability of the firm.

e. Ethics Contributes to Customer Satisfaction
   - Customer satisfaction is one of the most important factors in successful business strategy.
     - 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.
     - Successful businesses provide an opportunity for customer feedback, which can engage the customer in cooperative problem solving.
   - Research indicates that a majority of consumers prefer companies that give back to society in a socially responsible manner.
   - A strong organizational ethical environment usually focuses on the core value of placing customers' interests first.
     - An ethical climate that focuses on customers incorporates the interests of all employees, suppliers, and other interested parties in decisions and actions.

f. Ethics Contributes to Profits
   - A company cannot nurture and develop an ethical organizational climate unless it has achieved adequate financial performance in terms of profits.
     - Ethical conduct toward customers builds a strong competitive position that has been shown to positively affect business performance and product innovation.
     - Research has shown that the world's most ethical companies tend to outperform other publicly traded companies.

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    - Companies perceived by their employees as having a high degree of honesty and integrity have a much higher average total return to shareholders than do companies perceived as having a low degree of honesty and integrity.
- Ethics is becoming part of management's efforts to achieve competitive advantage.

VI. Our Framework for Studying Business Ethics (Table 1-3)

a. Part One provides an overview of business ethics and explores the development and importance of this critical business area, as well as 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—and includes both mandatory and voluntary societal concerns.

c. Part Three explores the ethical decision-making process and both individual and organizational factors that influence decisions.

d. Part Four explores systems and processes associated with implementing business ethics into global strategic planning.
    - The more you know about how individuals make decisions, the better prepared you will be to cope with difficult ethical decisions.
    - 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.

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Discussion Questions

You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. **Discussion**: **Dilbert on Ethics** (1.1, Video duration: 2:21, Discussion time: 5 minutes)

   This video takes a humorous view of what constitutes ethical conduct in an organization and who should receive ethics training. After students have watched the video, conduct an instructor-led debrief using the questions provided.

   - What is your definition of business ethics?
     - Business ethics comprises organizational principles, values, and norms that may originate from individuals, organizational

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statements, or from the legal system that primarily guide individual and group behavior in the world of business.

- What are the ethical issues discussed in this video?
    - Topics discussed include lying, consumer safety, anti-competitive behavior, relationships in the workplace, and more.
- If only subordinates receive ethics training, how could this become a challenge to employee commitment?
    - Employees may not be committed to ethics training or abiding by codes of conduct if there is no buy-in or enforcement by management. If management views ethics training as worthless, employees will likely agree.

2. **Discussion**: **Why Values and Ethics Are Important to Corporate America and Beyond** (1.1, Video duration: 6:05, Discussion time: 10 minutes)

   In this video, Patrick Quinlan, CEO of Convercent (an ethics and compliance software company), discusses the importance of values and ethics in business. Quinlan stresses how the business world is focusing more on the ethical behaviors of companies. After students have watched the video, conduct an instructor-led debrief using the questions provided.

   - What is your definition of values?
       - Values are enduring beliefs and ideals that are socially enforced.
   - What are the ethical issues discussed in this video?
       - Topics discussed include intimidation in the workplace, sexual harassment/misconduct, equality, child slavery, bribery, corruption, and more.
   - Describe the role of the chief ethics officer.
       - The chief ethics officer (or chief integrity officer) of an organization reports to the board of directors and oversees a business's ethics and compliance programs.

3. **Discussion Activity 1:** (1.3, PPT Slides 23–24) Duration: 10 minutes.

   Break the class into small groups of three to five students. Have students read the discussion questions and discuss their answers within their groups. Students should be prepared to provide examples. After students have completed the activity, conduct an instructor-led debrief using the questions provided. (This discussion exercise could also be used as a polling activity.)

   - Did everyone in your group say that they seek products that align with their values?

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- Why do you think this varies by generation?
- Will you seek (or have you sought) an employer that aligns with your values?
    - Millennials and Generation Z highly value authenticity and transparency from businesses and have become influential consumer groups, seeking products that align with their values. These generations let business ethics and CSR issues guide not only product purchase decisions, but also employer choices.

4. **Discussion Activity 2**: (1.4, PPT Slides 37–38) Duration: 10 minutes.

   Break class into small groups of three to five students. Have students read the discussion question and discuss their answers within their groups. Students may reference the text or use their knowledge or personal experience. After students have completed the activity, conduct an instructor-led debrief using the questions provided.

   - What are the pros and cons of business ethics?
       - Pros:
           - Contributes to employee commitment
           - Contributes to customer satisfaction
           - Contributes to profits
           - Provides a foundation for efficiency, productivity, and profits
           - Negative publicity results in lawsuits, fines, lower stock prices, diminished customer loyalty
           - Demand for socially responsible investing is increasing
       - Cons:
           - Eats into revenues, sales, profitability
           - Does not maximize shareholder benefits
           - Decreases competitive edge

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Additional Activities and Assignments

1. **An Ethical Dilemma** (p. 2)

   This ethical dilemma concerns TikTok, which is a social media network for sharing short videos. The scenario is fairly straightforward for many undergraduate students. Have students read the scenario provided in the text and then conduct an instructor-led discussion using the questions provided.

   - Identify the issues Madison has to resolve.
   - What is Madison's responsibility to the firm and Terry?
   - Do you think Madison should report Mark and Caroline?
       - A number of students will suggest that Madison say nothing about the inappropriate video she saw of her coworker on TikTok because

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either the student empathizes with Mark or it could be because Caroline, Madison's friend, made the video and the student wants to protect that relationship. To keep the discussion lively, the instructor may wish to point out that the scenario states that Mark violated Alpha Beta Corporation's corporate conduct code. You may also want to argue that because many people have seen the video, it negatively represents the firm and thus the student's reputation as well. In addition, Mark shared confidential information of an acquisition that potentially makes Mark an unwitting accomplice to stock manipulations and insider trading.

2. **Debate Issue:** Does Being Ethical Result in Better Performance? (p. 19, 1.3, PPT Slides 30–31)

   The purpose of this activity is to get students to realize that there are no easy answers to many of these issues. Have students partner up for this activity. Each student should select one of the opposing viewpoints and engage in a brief debate within their pair groups. Online research is welcome, or students can pull from personal knowledge experience. Once students have completed this activity, ask them to share their answers with the larger group and conduct an instructor-led debrief. Students will find the debate is not black-and-white.

   Overview: While research suggests ethical businesses have better performance, there is also an alternate view. Many businesspeople think ethics and social responsibility require resources that do not contribute to profits, and time spent in ethics training could be better used for other business activities.

   Take a Stand:

   - Ethical businesses are the most profitable.
   - The most ethical businesses are not the most profitable.

   Debrief:

   - Those who argue that ethical businesses are more profitable could point to the different studies showing a positive correlation between ethics and profitability, the goodwill gained from ethical conduct, and the additional customer confidence associated with an ethical company.
   - The opposition might point out that some dishonest companies have gotten away with only small penalties for misconduct and that companies must be more concerned with obtaining profits than spending time worrying about ethics.

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3. **Resolving Ethical Business Challenges** (p. 24)

   Have students read the scenario provided in the text and then conduct an instructor-led discussion using the questions provided.

   - Why should Ann get involved in reporting if she has not experienced any of the allegations the other employees are making?
   - What are some of the characteristics of Best East's ethical culture that would create the current dilemma for Ann?
   - What should Ann do to resolve her concerns?
     - Instructors may wish to ask which students see this as an ethical issue and which see it as a legal issue. Is there a difference of opinion between business and nonbusiness-major students?
     - Instructors may also wish to discuss where the line is between loyalty to the company and loyalty to the staff you manage. Ann could tell from the manual the allegations against Oliver constituted sexual harassment. Ann knew putting pressure on the female employees to report the behavior of the boss's son was problematic. Ann also fears the allegations could impact the motel's reputation and image in the community, and she would be responsible for it.
     - These situations can be extraordinarily difficult for employees, particularly ones who have limited experience upon which to draw. It is in situations like these that a clear code of conduct and a strong ethics and compliance program will minimize the opportunity for misconduct.

4. **Check Your EQ** (p. 24)

   Have students check their EQ, or Ethics Quotient, by completing the following assessment found in the text at the end of the chapter. Students can assess their performance to evaluate their overall understanding of the chapter material.

   - Prompts (Students should answer Yes or No):
     1. Business ethics focuses mostly on personal ethical issues.
     2. Business ethics deals with right or wrong behavior within a particular organization.
     3. An ethical culture is based upon the norms and values of the company.
     4. Business ethics contributes to investor loyalty.
     5. The trend is away from culturally or ethically based initiatives to legal initiatives in organizations.
     6. Investments in business ethics do not support the bottom line.

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- Answers:
    1. No. Business ethics focuses on organizational concerns (legal and ethical—employees, customers, suppliers, society, and the like).
    2. Yes. That stems from the basic definition.
    3. Yes. Norms and values help create an organizational culture and are key in supporting or not supporting ethical conduct.
    4. Yes. Many studies have shown that trust and ethical conduct contribute to investor loyalty.
    5. No. Many businesses are communicating their core values to their employees by creating ethics programs and appointing ethics officers to oversee them.
    6. No. Ethics initiatives create consumer, employee, and shareholder loyalty and positive behavior that contribute to the bottom line.

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Appendix

Generic Rubrics

Providing students with rubrics helps them understand expectations and components of assignments. Rubrics help students become more aware of their learning process and progress, and they improve students' work through timely and detailed feedback.

Customize these rubric templates as you wish. The writing rubric indicates 40 points and the discussion rubric indicates 30 points.

Standard Writing Rubric

Criteria	Meets Requirements	Needs Improvement	Incomplete
Content	The assignment clearly and comprehensively addresses all questions in the assignment. 15 points	The assignment partially addresses some or all questions in the assignment. 8 points	The assignment does not address the questions in the assignment. 0 points
Organization and Clarity	The assignment presents ideas in a clear manner and with strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion. Coverage of facts, arguments, and conclusions are logically related and consistent. 10 points	The assignment presents ideas in a mostly clear manner and with a mostly strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion. Coverage of facts, arguments, and conclusions are mostly logically related and consistent. 7 points	The assignment does not present ideas in a clear manner and with strong organizational structure. The assignment includes an introduction, content, and conclusion, but coverage of facts, arguments, and conclusions are not logically related and consistent. 0 points
Research	The assignment is based upon appropriate and adequate academic literature, including peer reviewed journals and other scholarly work. 5 points	The assignment is based upon adequate academic literature but does not include peer reviewed journals and other scholarly work. 3 points	The assignment is not based upon appropriate and adequate academic literature and does not include peer reviewed journals and other scholarly work. 0 points
Research	The assignment follows the required citation guidelines. 5 points	The assignment follows some of the required citation guidelines. 3 points	The assignment does not follow the required citation guidelines. 0 points
Grammar and Spelling	The assignment has two or fewer grammatical and spelling errors. 5 points	The assignment has three to five grammatical and spelling errors. 3 points	The assignment is incomplete or unintelligible. 0 points

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Standard Discussion Rubric

Criteria	Meets Requirements	Needs Improvement	Incomplete
Participation	Submits or participates in discussion by the posted deadlines. Follows instructions for initial post and responses. 5 points	Does not participate or submit discussion by the posted deadlines. Does not follow instructions for initial post and responses. 3 points	Does not participate in discussion. 0 points
Contribution Quality	Comments stay on task. Comments add value to discussion topic. Comments motivate other students to respond. 20 points	Comments may not stay on task. Comments may not add value to discussion topic. Comments may not motivate other students to respond. 10 points	Does not participate in discussion. 0 points
Etiquette	Maintains appropriate language. Offers criticism in a constructive manner. Provides both positive and negative feedback. 5 points	Does not always maintain appropriate language. Offers criticism in an offensive manner. Provides only negative feedback. 3 points	Does not participate in discussion. 0 points

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Role-Play Exercise: ABIG Company

Ferrell/Fraedrich/Ferrell, Business Ethics 13e, CY2022; Instructor Supplement

Role-play exercises may be used as a culminating experience to help students integrate concepts covered in the text or as an ongoing exercise to provide students with extensive opportunities for interacting and making ethical decisions.

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Directions for Instructor

1. Print copies of the role-play exercise pages (one copy of "Background" for each student in the class; one set of the roles for every seven students in the class).
2. Develop teams of five students (there are seven unique roles in ABIG Company).
3. Have each student read the "Background" as an introduction to the exercise.
4. Assign each student a role to play and provide the specific role description.
5. Indicate the desired outcome of the process (e.g., press conference, written and/or oral presentation, short-term plan, long-term plan, employee meeting, etc.) and create feedback mechanisms appropriate for the desired outcome.
6. Teams will need at least forty-five minutes to review, discuss, and prepare.
7. Link the key issues to course training and learning objectives.

Key Issues

Use of work email | Employee privacy | Employee incentives | Product quality

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Background

ABIG Company is located in Denver. A subsidiary of a larger conglomerate, the Denver division of ABIG is a world leader in financial market research for both the public and private sectors. The operations group of ABIG is the backbone for product development and delivering high-quality research products for the company. The sales department depends on the accuracy of this research and the timeliness of delivery for clients.

The research specialists within the operations group of ABIG are college-educated, work independently, have a good deal of autonomy, and use independent judgment in their research analysis. This group is responsible for researching, collecting, standardizing, and presenting financial and market data. The specialists engage in internal training and development programs. However, most of their knowledge is gained through an extensive mentoring program.

Employees leaving the company often do so for higher-paying jobs. Historically, the turnover rate was 30 percent, but it is on the rise. Last year, the turnover rate was closer to 65 percent. There were noticeable repercussions as a result. Training costs skyrocketed, accuracy suffered, and timeliness slipped. Actions were needed to curb the turnover. For the first time, part of managers' bonuses was based on employee retention of direct reports. For managers in the research specialist department, this percentage was significant. These managers were also given extra tools to help them in their retention efforts.

A few months ago, a disgruntled research specialist sent out an email with blunt accusations regarding the operations group manager, Martin. He cc'd several of the other managers in the firm. A day later, he was called into Martin's office and was told that the way he worded his accusations was inappropriate and offensive. Later that week, ABIG updated the email policy outlining the appropriate use of corporate email. The research specialist seemed to cool down, and most in the firm thought the issue was over.

Yet a few days ago, the research specialist found out that all of his work emails were being monitored by management. He was issued a warning for emails that he had sent in the past that were deemed personal. He was also informed that his schedule was being rearranged to a more "traditional" workweek. The research specialist is outraged, and many other employees have expressed concerns that their emails are being monitored. The research specialist demanded an immediate meeting with management to discuss the matter. Riya, the Vice President of Operations, has deemed this situation unacceptable and wants to stop it before it gets worse. She asked management to come up with an action plan for how to address these many issues. This action plan must have recommendations for handling these issues that will take place in the short-term, mid-term, and long-term. Among the issues to be considered is the appropriate use of email, the current email policy, corporate monitoring of employee email, quality control, the bonus structure, and the flexible workweek policy.

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Tom, Research Specialist

You joined ABIG company four years ago directly out of college. You are starting to get a little bored with the position but enjoy the benefits the company has to offer. You especially liked the fact that you had a fairly flexible schedule and got to come in whenever you wanted as long as you reached 40 hours and finished assignments. You are taking advantage of the company's tuition reimbursement program as you work on getting your MBA from Colorado State University.

During the past year, you have begun to question some of the decisions of your immediate managers and how those decisions affect your income. You and other members of your department have been assigned new people to train, something which you do not like. Due to the amount of time associated with training, you do not think your department will be able to meet your production goals or qualify for a full bonus payout. On a number of occasions, you have spoken to your manager, Martin, about the issue. You worry that without the bonus you usually receive, you will not have enough for tuition costs.

While you have talked with Martin directly about the issues, you feel that he has not listened to you. A few months ago, you realized there was no way your department was going to make its production goals. You got angry and sent an email to Martin. You copy other managers on the email because you have not had any success with Martin. You openly criticize management and express your fears. You also state that the quality of your department's work is not up to par and that you are "pawning" off old information. The next day, you are called into Martin's office and are chastised for what he thinks are "inappropriate" comments and accusations in the email. However, he assures you that management will consider your concerns. Later that week, the company releases an updated email policy dictating the appropriate use of company email.

A few weeks ago, you interviewed for a position in another department. The manager for the department asked Human Resources for a copy of your personnel file. During the interview, the new manager referred to the emails you had been sending. You are surprised because you never sent an email to this particular manager. You realize your emails have been monitored and shared among management.

That same day, you are called once again into Martin's office. He issues you a written citation for sending certain personal emails that do not have a "business" purpose. You get angry because most of your personal messages were two or three lines and only used for mundane things such as reminding your aunt to send a birthday card for your son. You know that the majority of employees use company email for at least some personal use. You are told that the company is eliminating its flexible workweek program and that you must start coming in during set hours. You feel that you are being retaliated against because of the email you sent criticizing the company. You scheduled a meeting with management and made your grievances known. Much to your annoyance, the Vice President of Operations has assigned you to work with management on an action plan to deal with the disaster management has caused.

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Martin, Operations Group Manager

You are one of twelve operations group managers. You oversee the work of ten research specialists, including Tom. Overall, you view Tom as a mediocre employee and a troublemaker. Because of the company's flexible work schedule policy, Tom usually comes in during off-hours when you are not around to monitor him and logs exactly 40 hours every week. You have caught him looking at non-work-related websites and have warned him that it is against company policy. In spite of these issues, you gave Tom a positive evaluation six months earlier, hoping a positive evaluation would inspire Tom to perform at a higher level. You also want to avoid conflict since Tom is a very confrontational person. You justify the evaluation by stating that Tom is taking on additional training responsibilities even though all of the more senior research specialists were being called on to do more training. Also, even though you do not particularly like Tom, you fear what might happen if he gets angry and leaves. The company is already short on staff.

The positive evaluation has not stopped Tom from complaining about his additional responsibilities. A few months ago, you received an angry email from Tom heavily criticizing the company's training structure, bonus structure, product shortcomings, and ABIG management. One of the accusations was launched directly at you. You feel that the language is inappropriate and decided to confront Tom about the proper way to handle conflict. Since Tom copied other managers onto his email, you worry about the impact this could have on your reputation.

You call Tom into your office the next day and confront him which leads to an argument. You end the meeting by saying that management will consider his concerns in due time. That week you work with other managers to update an email policy dictating the proper use of email. A key statement in the policy is that corporate email must be used solely for business purposes. You are still angry about Tom's behavior and suggest to your boss that you could monitor Tom's emails to ensure he is obeying company policy. Your boss consents to this plan of action, and you begin personally monitoring Tom's emails. You find that he occasionally uses corporate email for personal uses, a direct violation of company policy. You share this information with the other managers and write this up in Tom's personnel file.

Recently, you feel that Tom's erratic behavior is hindering production. You talk with senior managers and agree that the flexible work schedule the company has been offering is being abused. You call Tom into your office and issue him a citation for misusing corporate email. You also inform him that the company's flexible workweek policy is going to be eliminated and he would have to start coming in during normal work hours. As expected, Tom responded negatively, demanding a meeting with senior management. Riya, Vice President of Operations, was not happy to hear about all of the problems. She asked management to come up with an action plan to discuss possible next steps in dealing with the company's culture problem. She assigned Tom, the one who started all of this, to the team to develop the plan. You feel this will stoke Tom's ego and cause more conflict.

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Felipe, Director of the Operations Group

You are concerned about the issues surrounding Tom. You know that the operations group is having a lot of difficulties, and it cannot afford to have disgruntled employees causing trouble. Your bonus is based on the productivity of the entire group. Like Tom, you are concerned with your bonus. You know how much the turnover rate has affected the bottom line. You are surprised and angered with the email Tom sent a few months ago criticizing management and the bonus structure. You are not fond of the bonus structure, but you feel that some language in Tom's email was inappropriate and should not have been sent to the entire management team. You feel that his comments were exaggerated.

As a result of this email, you are being asked pointed questions about the department's product. You are nervous because the department has been taking shortcuts due to staffing issues, but you do not think this threatens the value of the product. For example, you cut one of the quality control measures performed by the research analysts. You believe this step was unnecessary. So far, two clients have raised quality control concerns, but you think the mistakes were acceptable given the resources saved. Additionally, the mistakes were easily corrected and the clients were appeased.

You also made a change to another product line. As alleged by Tom, old information was reused for up to two update cycles. The overall effect on the data was minimal. During informal conversations with the sales department, you were convinced that enacting the information reuse would not contradict anything that the sales department was telling clients. You feel that making these changes would make the department more efficient. You have been reluctant to share this information with other managers because you thought other managers would not understand. You also believe that the other managers do not face the difficulty you do of balancing quality of information with profitability.

Before talking to Martin, you viewed Tom's personnel file. You hope to find some trail of infractions. You were disappointed that Martin had given Tom a favorable review six months before. During your meeting, you agree to let Martin personally monitor Tom's emails and share the information with the other managers. Since it is a company email, you do not feel that this infringes on Tom's privacy. You were delighted when told that Tom had used company email for personal purposes. You also talked with top management and determined that the flexible workweek program the company offers leads to less productivity, and a decision is made to eliminate it.

When Tom was confronted with a written citation for misusing corporate email, he insisted on a meeting with top management. After hearing everybody's thoughts, Vice President of Operations Riya says the situation is unacceptable and is insisting on an action plan to deal with these issues in both the short-term and long-term. You are worried that a closer investigation of activities will show how you cut corners. You are frustrated that Tom has been appointed to the team since he is not a manager. You cannot understand why he gets what he wants simply by causing a ruckus.

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Carol, Senior Director of Information Systems

You have been with ABIG Company for three years. A computer wizard, your main concern is keeping the databases that are the backbone of the company up and running. You have very little concern for anything outside of your job. When Martin and Felipe approached you about Tom's alleged email abuse, you explained to them that there was a way to bcc (blind carbon copy) them on emails that Tom and other employees in the group send from the office. You agree to set this in motion, but only if they check with Human Resources to make sure this is above-the-board. You do not have time to research the protocol yourself and see these types of tasks as diversions from your main database functions.

Even though you do not much care about these types of things, part of you is slightly satisfied that Tom is getting monitored. A year ago, you had entered into a relationship with Tom, but his acerbic attitude caused it to last only a short while. You feel that nobody in the company really likes Tom and that he takes advantage of the company using the "flexible workweek" program. When you learn that the flexible workweek program is going to be disbanded, you support the notion because you feel that everyone should have to work the same traditional hours that you have.

After asking Martin and Felipe to check with Human Resources, Martin called you a week later to tell you that Human Resources had approved the procedure to bcc him and Felipe on all emails that Tom sends out. After this assurance, you set in place the monitoring of emails for all of the members of the research group. You do not want to have to go back and recreate the same program numerous times for that department. The task takes you less than two hours to complete.

Now Tom is angry that his email has been monitored and insisted on setting a meeting with the management team. Riya, Vice President of the Operations Group, is making the team come up with an action plan with recommendations on how to address the problems and policy changes at the company. You are eager to get this over with so you can go back to your real job.

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Darius, Director of Human Resources

You have worked at ABIG Company for eight years and love your job. You take great pride in the firm, and it is your responsibility to ensure that company policies are being followed. When Tom sent his incendiary email out to the managers, you were not sent a copy. Felipe later brought a copy of the email to you to read. He was quick to point out all of the misstatements and inappropriate language that were in the email. He also informed you of the two times he caught Tom using the Internet for non-business use. You point out that the violation should have been brought to your attention the first time Tom was caught misusing the corporate computer.

After reading the email, you agree that the language is over-the-top and inappropriate, thereby making it a misuse of company email. When Martin asks for permission to monitor Tom's email communications, you told him you would have to review ABIG's policies and procedures for monitoring email before giving approval. You are not aware of any precedent within the company where one individual is specifically targeted for email review. More typically, random emails were reviewed for proper business usage.

However, you find no strong arguments against it and feel that it is ethical as long as Tom is using the company's computer. After some research and a number of conversations with the corporate office, you decide that Martin is well within his rights as Tom's supervisor to review his email. You give the go-ahead to Martin. You located the specific document that explains to employees about the company's email policy and management's right to review employee email. However, you find some of the language a bit vague, so you help to update the policy to make it clearer and send it to all employees.

On the other hand, recently you have begun to have second thoughts about the appropriateness of monitoring a specific employee's computer usage. ABIG considers itself to be an employee-friendly company. General knowledge of targeting people for email review could result in a "Big Brother" view of the firm, further deterring hiring. You ask to be kept informed of all professional emails and that only essential persons be informed of what Tom or other employees might do doing on the Internet. You did not want the entire staff to have knowledge of what management is doing.

Now you are questioning even that decision after Tom found out about the monitoring and brought up the issue to management. The conflict has alerted employees to the fact that the company might be monitoring their Internet usage, and you have begun to hear some complaints, although none directly. You are tasked by Riya, Vice President of the Operations Group, to offer input on an action plan to address human resource issues. You are considering whether it would be the best idea to get rid of the employee monitoring program.

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Harriet, Senior Director of Sales

You have worked at ABIG Company for three years and interact with the research group on a regular basis. You are proud of ABIG's reputation for quality work and products. Lately, however, you have been distressed to see problems with some of the products. For a long time, you did not know why problems had been arising when previously there had been none. You know the company has experienced high turnover and is strapped for new hires, but you are a firm believer that quality should never suffer as a result—even if it means cutting back on production.

A few months ago, you were cc'd on an email from Tom with criticisms against the company. While the criticisms seem mostly directed at management as a whole—as well as Operations Group Manager Martin in particular—you are most interested in accusations claiming that the group had been taking shortcuts by cutting out certain quality control procedures. You become very angry at this because it would explain the recent problems that were appearing with the product. You tend to hear most of the customer complaints and had noticed that recently the number of customer complaints had increased. You had attributed the problems to the steady rise in turnover and had assured your clients that all issues would be resolved shortly. You have also reassured them that the company's product offerings were still of the highest quality. Until now you had believed all that to be true. In your eyes, misleading the client is one of the worst things a salesperson can do.

After reading the email, you fired off a litany of questions to Felipe, the Director of the Operations Group. You feel he should be the one held responsible for any shortcuts since he is in charge of the group. You have a suspicion that he already knows about the "shortcuts" alleged in Tom's email, and that he even authorized them, but you cannot prove it. You wanted to give Felipe an appropriate amount of time to respond to your inquiries, but you heard nothing back.

Recently, you were informed that Tom's computer usage had been monitored. You feel that this is a direct breach of employee trust. You also are certain that this is retaliation against Tom for "causing trouble." While the email you read could have been phrased better, you strongly believe he was well within his rights to send that email and inform everyone in management about the problems. After hearing Tom's complaints, Vice President of the Operations Group Riya has assigned you and other managers to create an action plan to address these issues. You are dismayed to see that Felipe is part of the team. You strongly disagree with this because one of the things you wanted to discuss with the team is whether he engaged in questionable conduct in quality management.

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Riya, Vice President of the Operations Group

You have spent six years working at ABIG Company and are also the General Manager for the entire Denver operation. It was not easy working your way to the top, and you have little use for internal problems that might compromise the quality of the business. You are frustrated with how the high turnover rates are impacting business operations and are determined to get to the bottom of it.

Recently, one of the research specialists, Tom, approached you and asked for a meeting with top management. During the meeting, he accused certain managers of retaliating against him for being a whistleblower. You remember reading the email and thinking that it was crass, but you had other things on your mind and didn't want to bother with it.

Tom also claimed that his supervisor Martin was "spying" on him whenever he used his computer and that he had been issued an unfair citation for using the computer for "non-business purposes." You are well aware of the company policies against using corporate technology for non-business use, but you are also realistic and know that employees do sometimes use corporate email systems to send a quick personal email. Tom claimed that Martin had infringed on his privacy and employee rights by sharing the information he had monitored with the rest of management and placing them in his personnel folder. He also alleges that the company's elimination of the flexible workweek policy it had had in place for the past two years was merely a way of getting back at him for blowing the whistle. He demanded to know what you are going to do about these issues.

As an extremely busy person, you really don't have time for this. However, you know this could cause damage to ABIG if word gets out that managers are monitoring employee email. You certainly don't want rumors being spread that managers retaliate against employees for bringing up concerns, especially with such a high turnover rate. You determine that the situation is unacceptable.

You assign a team to develop an action plan for addressing these issues. Once they have a draft, you will go over it with them and put in your own input. You hope to submit a finalized action plan to headquarters at the end of the month. You know this action plan is going to have to address a myriad of issues but believe if effective it will help increase employee morale and make the company more desirable for potential employees.

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Case Notes: Case 01
From the Outside In: Corporate Social Responsibility at Patagonia

Ferrell/Fraedrich/Ferrell, Business Ethics 13e, CY2022; Instructor Supplement

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Case Notes for Instructors

How can businesses make a difference in a world of decreasing resources? Patagonia, a privately held outdoor clothing company based in Ventura, California, is working toward finding an answer to that question. Patagonia develops and markets clothing for outdoor sports, travel, and everyday wear. The company has integrated core beliefs and values into every product it produces and is known for its innovative designs, exceptional quality, and environmental ingenuity. High integrity and commitment to the environment have regularly placed Patagonia on the Ethisphere Institute's "World's Most Ethical Companies" list.

This case looks at Patagonia's history, core values, and management. The case also looks at the company's environmental initiatives and its commitment to social responsibility. Students should consider how Patagonia has positively impacted the environment and other businesses, such as its supply chain partners. Students should also consider competitors, such as The North Face, which have been more hesitant to take a stance on social and environmental issues. Students may also consider the challenges associated with being a socially responsible company.

Themes

- Ethical leadership
- Corporate social responsibility
- Sustainability
- Environmental issues
- Values
- Corporate culture
- Suppliers
- Employee relationships

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Questions and Discussion

1. **How has Patagonia been able to promote corporate social responsibility among other businesses?**

   The company remains dedicated to advancing environmental awareness among businesses—even if it entails partnering with some unlikely companies. For instance, Patagonia partnered with Walmart and Adidas to form the Sustainable Apparel Coalition. Patagonia realizes that to create lasting change, it must not only improve its sustainability operations but also assist in helping other businesses learn how to reduce their impact on the environment. In addition, Patagonia co-founded the Conservation Alliance to encourage businesses in the outdoor industry to contribute to environmental organizations that protect and restore nature and wildlife. Rather than taking from the environment, Patagonia's goal is to educate consumers and businesses about how they can help to preserve it, serving as a role model for those who desire to make a positive difference.

2. **Do you think it is beneficial for Patagonia to branch out into ventures other than apparel?**

   Student responses to this question will vary. Patagonia's central strengths lie in its core values, its supply chain, and its strategic partnerships. These advantages can be leveraged to support new ventures.

   Patagonia is moving beyond apparel to address sustainability in the food industry. Under its subsidiary Patagonia Provisions, the company aims to improve the food chain with the same principles that it applies to its clothing business. Patagonia's foray into food may evoke a variety of reactions from students, but this endeavor has received quite a bit of positive press.

3. **Do you think it is beneficial for Patagonia to branch out into ventures other than apparel?**

   Public companies are responsible to stockholders, while privately held companies such as Patagonia have more freedom. Students may argue, however, that being socially responsible is no longer a competitive advantage, but rather a minimum requirement for companies.

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Additional Resources

- Patagonia: Our Core Values: **https://www.patagonia.com/core-values/**
- Patagonia Materials & Fabrics: **https://www.patagonia.com/materials/**
- Patagonia, "Demand Organic Cotton," YouTube (0:30) **https://www.youtube.com/watch?v=OzdVtSwdFx8**

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Case Notes: Case 02
Tesla Accelerates the Transition to Sustainable Energy

Ferrell/Fraedrich/Ferrell, Business Ethics 13e, CY2022; Instructor Supplement

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Case Notes for Instructors

Tesla is an all-electric vehicle and energy generation products company based in Palo Alto, California. Founded in 2003 by engineers Martin Eberhard and Marc Tarpenning, the company was named after Nikola Tesla, an inventor and engineer known for his contributions to the design of modern alternating current electric systems.

Tesla is widely admired for its industry-altering innovation that is built around its core vision of moving the world toward sustainable energy. Though Tesla got its start with electric vehicles (EVs), the company has branched out to create a variety of renewable energy technologies from solar roof tiles to clean energy storage. The company believes the faster the world stops relying on fossil fuels and moves toward a zero-emission future, the better. Tesla also has an extensive corporate social responsibility (CSR) strategy that includes focusing on the safety of both employees and consumers, supporting a diverse work environment, sourcing responsibly produced materials, and contributing to education.

Despite the company's good intentions and CSR efforts, Tesla has attracted both skepticism and criticism from the public as well as investors. CEO Elon Musk's outspoken nature has hurt the company's reputation and stock price more than once. Additionally, Tesla has faced many ethical issues in the workplace from whistle-blower retaliation to violating labor laws. The EV company has also struggled with supply chain management, often failing to meet crucial deadlines and production goals.

Without a doubt, Tesla made the modern EV desirable. Though Tesla did not invent the EV, it was the first to create a viable EV for today's consumers and has set the standard of what

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an electric car should be. Since the company was founded, there are now more than three million EVs on the road globally. Despite facing more competition than ever before, Tesla is growing substantially and has repeatedly posted quarterly profits after years of losses.

Themes

- Sustainability
- Environmental issues
- Emerging technology
- Artificial intelligence
- Corporate social responsibility
- Ethical leadership
- Consumer safety
- Supply chain issues
- Employee relationships
- Diversity
- Whistle-blowing
- Codes of conduct

Questions and Discussion

1. **Do you think it is beneficial for Patagonia to branch out into ventures other than apparel?**

   Tesla's corporate social responsibility (CSR) strategy addresses stakeholders' interests by monitoring and reporting on the company's product and operational impact, emphasizing consumer safety and responsible sourcing, and focusing on its employees and building a strong organizational culture.

   Tesla believes that consumers should not have to compromise on price or performance when it comes to choosing sustainable products. To address this consumer interest, Tesla has introduced more affordable models of its environmentally friendly vehicles, which has resulted in millions of metric tons of emissions savings. Tesla has also prioritized consumer (occupant) safety through advanced safety features and by taking additional measures that provide customers with peace of mind.

   Tesla's goal is to have the safest car factory in the world. To this end, Tesla has prioritized employee safety through a multi-day training program and on-the-job training, and the company voluntarily releases a vehicle safety report every quarter, creating transparency with the public. Tesla also fosters employee advocates by offering perks such as its employee stock purchase program. Additionally, Tesla supports workplace diversity in its recruitment and retention efforts through anti-discrimination and anti-sexual harassment training as well as unconscious bias training.

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To address the financial interests of shareholders, Tesla has taken measures to increase profitability, even going as far as to implement layoffs in a move toward streamlining the company. And to extend its principles of integrity, Tesla has policies in place that outline the expectations of all of its suppliers and partners. In addition, Tesla has a strong track record of supporting education in the communities in which it operates.

2. **Do you think it is beneficial for Patagonia to branch out into ventures other than apparel?**

Tesla has faced a series of ethical controversies in the workplace. For example, Business Insider reported in 2018 that inefficiency at Tesla's Nevada Gigafactory led the company to scrap $150 million in raw materials. Martin Tripp, who was identified as the leaker of the story, claims he suggested to his bosses that scrap should be reduced in order to be less wasteful and create a safer working environment. Tripp was later fired and sued for $167 million. The security manager at Tesla's Gigafactory, Sean Gouthro, filed a whistle-blower report with the SEC against Tesla. Gouthro says Tesla behaved unethically in tracking down the leaker, claiming Tesla's security team hacked Tripp's phone, had Tripp followed, misled police, and installed a device to monitor Tripp's personal communications. Though the legal battle is ongoing, Tesla denies these allegations.

In addition to the whistle-blower scandal, Tesla was found guilty in 2019 of violating National Labor Relations Act, including specific counts of threatening employees and retaliating against them. The judge further ruled that an Elon Musk tweet stating that joining a union meant giving up Tesla stock options was also illegal.

Elon Musk has been at the center of other controversies, such as when he tweeted that the COVID-19 virus was less serious than people thought and then continued to keep Tesla's factory in California open, despite a shelter-in-place order by California government officials. In this particular ethical issue, Musk's actions potentially put employees at risk.

In another incident, Musk announced on Twitter a plan to take the company private, using money from Saudi Arabia's sovereign wealth fund. The plan, which eventually crumbled, caused rapid trading, increasing the company's stock price by 10 percent, and resulted in a lawsuit from the Securities and Exchange Commission (SEC). Many viewed this as a lapse in ethical judgment. The SEC charged Musk with securities fraud due to the false and misleading tweet. Musk settled with the SEC and agreed to step down as chairman of Tesla.

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In 2018, Tesla's reputation took another blow when the Department of Justice investigated the company under suspicion that it had misled investors about production capacity. After Musk published a tweet about production capacity, the SEC filed a motion for contempt because it violated Tesla's previous agreement with the SEC.

Musk again attracted negative publicity in 2018 for smoking marijuana on Joe Rogan's podcast. Many media outlets suggest Musk violated Tesla's code of conduct because he was under the influence while representing the company.
Musk's unethical actions have proven to be detrimental to both Tesla's reputation and Tesla's financial performance, showing a lack of regard for shareholder interest.

3. **Do you think it is beneficial for Patagonia to branch out into ventures other than apparel?**

Tesla's products are intended to reduce the environmental impacts of transportation and energy use and production, thus reducing greenhouse gas (GHG) emissions. Collectively, its 550,000 vehicles sold have resulted in an emissions savings of four million metric tons of carbon dioxide. Tesla's annual carbon dioxide emissions are approximately 3 percent of Ford's worldwide facility emissions. Additionally, Supercharger stations have saved 75 million gallons of gasoline. Across all of its solar installations, Tesla has generated over 13 Terawatthours (TWhs) of emissions-free electricity. Governments around the globe support this shift toward electrification, and many offer monetary incentives to consumers to adopt EVs and other energy efficient products.

Additional Resources

- About Tesla: **https://www.tesla.com/about**
- About Elon Musk: **https://www.tesla.com/elon-musk**
- Tesla Solar: **https://www.tesla.com/solarpanels**

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