

 Cengage

10th Edition

Business Ethics

Case Studies and Selected Readings

Marianne M. Jennings



Business Ethics

Case Studies and Selected Readings

Tenth Edition



Business Ethics

Case Studies and Selected Readings

Marianne M. Jennings
Arizona State University

Tenth Edition



Australia • Brazil • Canada • Mexico • Singapore • United Kingdom • United States

Business Ethics: Case Studies and Selected Readings, Tenth Edition
Marianne M. Jennings

SVP, Product: Erin Joyner

VP, Product: Thais Alencar

Portfolio Product Director: Jason Fremder

Portfolio Product Manager: Effie Tsakmaklis

Product Assistant: Adam Graber

Learning Designer: Jason Fremder

Content Manager: Flora Emanuel, Lumina
Datamatics Ltd.

Digital Project Manager: Mark Hopkinson

VP, Product Marketing: Jason Sakos

Director, Product Marketing: Neena Bali

Content Acquisition Analyst: Nichole Nalenz

Production Service: Lumina Datamatics Ltd.

Designer: Gaby McCracken

Cover Image Source: 317929406/Rawpixel.com/
Shutterstock

Last three editions, as applicable: © 2018, © 2015, © 2012.

Copyright © 2024 Cengage Learning, Inc. ALL RIGHTS RESERVED.

No part of this work covered by the copyright herein may be reproduced or distributed in any form or by any means, except as permitted by U.S. copyright law, without the prior written permission of the copyright owner.

Unless otherwise noted, all content is Copyright © Cengage Learning, Inc.

The names of all products mentioned herein are used for identification purposes only and may be trademarks or registered trademarks of their respective owners. Cengage Learning disclaims any affiliation, association, connection with, sponsorship, or endorsement by such owners.

For product information and technology assistance, contact us at
Cengage Customer & Sales Support, 1-800-354-9706
or **support.cengage.com**.

For permission to use material from this text or product,
submit all requests online at **www.copyright.com**.

Library of Congress Control Number: 2022949775

SE ISBN: 978-0-357-71777-6

LLF ISBN: 978-0-357-71778-3

Cengage

200 Pier 4 Boulevard
Boston, MA 02210
USA

Cengage is a leading provider of customized learning solutions. Our employees reside in nearly 40 different countries and serve digital learners in 165 countries around the world. Find your local representative at **www.cengage.com**.

To learn more about Cengage platforms and services, register or access your online learning solution, or purchase materials for your course, visit **www.cengage.com**.

Notice to the Reader

Publisher does not warrant or guarantee any of the products described herein or perform any independent analysis in connection with any of the product information contained herein. Publisher does not assume, and expressly disclaims, any obligation to obtain and include information other than that provided to it by the manufacturer. The reader is expressly warned to consider and adopt all safety precautions that might be indicated by the activities described herein and to avoid all potential hazards. By following the instructions contained herein, the reader willingly assumes all risks in connection with such instructions. The publisher makes no representations or warranties of any kind, including but not limited to, the warranties of fitness for particular purpose or merchantability, nor are any such representations implied with respect to the material set forth herein, and the publisher takes no responsibility with respect to such material. The publisher shall not be liable for any special, consequential, or exemplary damages resulting, in whole or part, from the readers' use of, or reliance upon, this material.

Printed in the United States of America

Print Number: 01

Print Year: 2022

Brief Contents

Preface xvii

Acknowledgments xxvii

Unit 1 Ethical Theory, Philosophical Foundations, Our Reasoning Flaws, Types of Ethical Dilemmas, and You 2

- Section A Understanding Ourselves and Ethical Lapses 3
- Section B Ethical Theory and Philosophical Foundations 14
- Section C The Types of Ethical Dilemmas 23
- Section D Our Reasoning Flaws 33
- Section E Analyzing and Resolving Ethical Dilemmas 48

Unit 2 Solving Ethical Dilemmas in Business 82

- Section A Business, Ethics, and Individuals: How Do They Work Together? 84
- Section B What Gets in the Way of Ethical Decisions in Business? 101
- Section C Resolving Ethical Dilemmas in Business 120

Unit 3 Business, Stakeholders, Social Responsibility, and Sustainability 152

- Section A Business and Society: The Tough Issues of Economics, Social Responsibility, Stakeholders, and Business 153
- Section B Applying Social Responsibility and Stakeholder Theory 189
- Section C Social Responsibility and Sustainability 218
- Section D Government as a Stakeholder 227

Unit 4 Ethics and Company Culture 230

- Section A Temptation at Work for Individual Gain and That Credo 231
- Section B The Organizational Behavior Factors 240
- Section C Accounting and Governance Factors 271
- Section D The Structural Factors: Governance, Example, and Leadership 305
- Section E The Industry Practices and Legal Factors 340
- Section F The Fear-and-Silence Factors 366
- Section G The Culture of Goodness 390

Unit 5 Ethics and Contracts 398

Section A Contract Negotiations: All Is Fair and Conflicting Interests 399

Section B Promises, Performance, and Reality 419

Unit 6 Ethics in International Business 436

Section A Conflicts Between the Corporation's Ethics and Business Practices in Foreign Countries 437

Section B Bribes, Grease Payments, and "When in Rome. . . ." 465

Unit 7 Ethics, Business Operations, and Rights 480

Section A Workplace Safety 481

Section B Workplace Loyalty 489

Section C Workplace Diversity and Atmosphere 501

Section D Tough Issues and Confrontation in the Workplace 512

Unit 8 Ethics and Products 532

Section A Advertising Content 533

Section B Product Safety 538

Section C Product Sales 562

Unit 9 Ethics and Competition 580

Section A Covenants Not to Compete 581

Section B All's Fair, or Is It? 589

Section C Intellectual Property and Ethics 602

The Ethical Common Denominator (ECD) Index: The Common Threads of Business Ethics 607

Alphabetical Index 617

Business Discipline Index 621

Product/Company/Individuals Index 627

Topic Index 657

Contents

Preface xvii

Acknowledgments xxvii

Unit 1

Ethical Theory, Philosophical Foundations, Our Reasoning Flaws, Types of Ethical Dilemmas, and You

Section A

Understanding Ourselves and Ethical Lapses 3

Reading 1.1 You, That First Step, the Slippery Slope, and a Credo 3

Reading 1.2 What Did You Do in the Past Year That Bothered You? How That Question Can Change Lives and Cultures 10

Section B

Ethical Theory and Philosophical Foundations 14

Reading 1.3 What Are Ethics? From Line-Cutting to Kant 14

Section C

The Types of Ethical Dilemmas 23

Reading 1.4 The Types of Ethical Dilemmas: From Truth to Honesty to Conflicts 23

Section D

Our Reasoning Flaws 33

Reading 1.5 On Rationalizing and Labeling: The Things We Do That Make Us Uncomfortable, but We Do Them Anyway 33

Case 1.6 “They Made Me Do It”: Following Orders and Legalities: Volkswagen and the Fake Emissions Tests 43

Reading 1.7 The University of North Carolina: How Do I Know When an Ethical Lapse Begins? 45

Section E

Analyzing and Resolving Ethical Dilemmas 48

Reading 1.8 Some Simple Tests for Resolving Ethical Dilemmas 48

Reading 1.9 Some Steps for Analyzing Ethical Dilemmas 58

Reading 1.10	A State of the Union on Cheating: Recognizing the Types and Scope of Cheating—Plagiarism	59
Case 1.11	The Little Teacher Who Could: Piper, Kansas, and Term Papers	60
Reading 1.12	A State of the Union on Cheating: Academic Data and Examples	62
Case 1.13	Dad, the Actuary, and the Stats Class	64
Case 1.14	Cheating: Culture of Excellence	65
Reading 1.15	A State of the Union on Cheating: Puffing on Your Résumé and Job Application and in Your Job Interviews	66
Reading 1.16	Résumés and the Ethics of Using Analytics	71
Case 1.17	Moving from School to Life: Do Cheaters Prosper?	75
Case 1.18	Cheating in Real Life: Wi-Fi Piggybacking and the Tragedy of the Commons	75
Case 1.19	Cheating in the Carpool Lane: Define Car Pool	76
Case 1.20	Cheating in Real Life: The Pack of Gum	76
Case 1.21	Mylan and Its CEO's Ethical Standards: Does Academic Cheating Matter in Real Life?	76

Unit 2

Solving Ethical Dilemmas in Business

Section A

Business, Ethics, and Individuals: How Do They Work Together? 84

Reading 2.1	The Layers of Ethical Issues and the Ethical Mind	84
Reading 2.2	What's Different About Business Ethics?	88
Reading 2.3	The Ethics of Responsibility	90
Reading 2.4	Is Business Bluffing Ethical?	91

Section B

What Gets in the Way of Ethical Decisions in Business? 101

Reading 2.5	How Leaders Lose Their Way: The Bathsheba Syndrome and What Price Hubris?	101
Reading 2.6	Moral Relativism and the Either/or Conundrum	104
Reading 2.7	$P = f(x)$ The Probability of an Ethical Outcome Is a Function of the Amount of Money Involved: Pressure	105
Case 2.8	BP and the Deepwater Horizon Explosion: Safety First	106

Section C**Resolving Ethical Dilemmas in Business 120**

- Reading 2.9 Framing Issues Carefully: A Structured Approach for Solving Ethical Dilemmas and Trying Out Your Ethical Skills on an Example 120
- Case 2.10 Penn State: Framing Ethical Issues 121
- Case 2.11 How About Those Astros? 135
- Case 2.12 Boeing: Decades of Major Ethical Setbacks from Lockheed Document Heists to the 737 MAX 137

Unit 3**Business, Stakeholders, Social Responsibility, and Sustainability****Section A****Business and Society: The Tough Issues of Economics, Social Responsibility, Stakeholders, and Business 153**

- Reading 3.1 The History and Components of Social Responsibility 153
- Case 3.2 Uber and Its Regulatory Cycles 166
- Case 3.3 The NFL, Colin Kaepernick, and Taking a Knee 167
- Reading 3.4 Components of Social Responsibility: Stakeholder Theory 169
- Reading 3.5 Measuring Social Responsibility 174
- Reading 3.6 The Lack of Virtue/Aristotelian Standards in CSR/ESG Evaluations and Surveys 179
- Reading 3.7 Business with a Soul: A Reexamination of What Counts in Business Ethics 181
- Reading 3.8 Appeasing Stakeholders with Public Relations 183
- Reading 3.9 Conscious Capitalism: Creating a New Paradigm for Business 186
- Reading 3.10 Marjorie Kelly and the Divine Right of Capital 187

Section B**Applying Social Responsibility and Stakeholder Theory 189**

- Case 3.11 Fannie, Freddie, Wall Street, Main Street, and the Subprime Mortgage Market: of Moral Hazards 189
- Case 3.12 Pharmaceuticals: A Tale of 4,834% Price Increases and Regulatory Cycles 201
- Case 3.13 The Social, Political, Economic, and Emotional Issue of the Minimum Wage 208
- Case 3.14 Ice-T, the *Body Count* Album, and Shareholder Uprisings 211
- Case 3.15 Cancel Culture 214
- Case 3.16 Ashley Madison: The Affair Website 216

Section C

Social Responsibility and Sustainability 218

- Case 3.17 Biofuels and Food Shortages in Guatemala 218
- Case 3.18 Herman Miller and Its Rain Forest Chairs 219
- Case 3.19 The Nonsustainability of the EV/Alt-Fuel and Troubled Truck Industry 223

Section D

Government as a Stakeholder 227

- Case 3.20 The Government Mattresses at the Border 227
- Case 3.21 Public Policy and COVID-19 in Nursing Homes 228

Unit 4

Ethics and Company Culture

Section A

Temptation at Work for Individual Gain and That Credo 231

- Reading 4.1 The Moving Line 231
- Reading 4.2 Not All Employees Are Equal When It Comes to Ethical Development 232
- Case 4.3 Bob Baffert: The Winningest Horse Trainer in History 236

Section B

The Organizational Behavior Factors 240

- Reading 4.4 The Preparation for a Defining Ethical Moment 240
- Case 4.5 Swiping Oreos at Work: Is It a Big Deal? 242
- Reading 4.6 The Effects of Compensation Systems: Incentives, Bonuses, Pay, and Ethics 243
- Reading 4.7 Measures, Metrics, and Gaming—Part A 247
- Case 4.8 VA: The Patient Queues 248
- Case 4.9 The Atlanta Public School System: High Test Scores, Low Knowledge Levels 253
- Case 4.10 The Wells Way 257
- Reading 4.11 Measures, Metrics, and Gaming—Part B 266

Section C

Accounting and Governance Factors 271

- Reading 4.12 A Primer on Accounting Issues and Ethics and Earnings Management 271
- Reading 4.13 Prevention Tools for the Layers of Ethical Issues: Individual, Organization, Industry, and Society 283

- Case 4.14 FINOVA and the Loan Write-Off 292
- Case 4.15 Organizational Pressures in the Academy: Those Rankings 296
- Case 4.16 Organizational Pressures in the Academy and Parental Pressure Outside: Operation Varsity Blues 299

Section D

The Structural Factors: Governance, Example, and Leadership 305

- Reading 4.17 The Things Leaders Do, Unwittingly, and Otherwise, That Harm Ethical Culture 305
- Reading 4.18 Re: A Primer on Sarbanes–Oxley and Dodd–Frank 312
- Case 4.19 Accountants and PCAOB: How Are They Doing? 316
- Case 4.20 WorldCom: The Little Company That Couldn't After All 319
- Case 4.21 The Upper West Branch Mining Disaster, the CEO, and the Faxed Production Reports 335

Section E

The Industry Practices and Legal Factors 340

- Reading 4.22 The Subprime Saga: Bear Stearns, Lehman, Merrill, and CDOs 340
- Case 4.23 Enron: The CFO, Conflicts, and Cooking the Books with Natural Gas and Electricity 348
- Case 4.24 Arthur Andersen: A Fallen Giant 360

Section F

The Fear-and-Silence Factors 366

- Case 4.25 HealthSouth: The Scrusby Way 366
- Case 4.26 Dennis Kozlowski: Tyco and the \$6,000 Shower Curtain 373
- Reading 4.27 A Primer on Speaking Up and Whistleblowing 383
- Case 4.28 NASA and the Space Shuttle Booster Rockets 387

Section G

The Culture of Goodness 390

- Case 4.29 New Era: If It Sounds Too Good to Be True, It Is Too Good to Be True 390
- Case 4.30 Giving and Spending the United Way 393
- Case 4.31 The Baptist Foundation: Funds of the Faithful 395

Unit 5**Ethics and Contracts****Section A****Contract Negotiations: All Is Fair and Conflicting Interests 399**

- Case 5.1 Johnny Depp and His Lawyer's \$30 Million in Percentage Earnings 399
- Case 5.2 The Governor and His Wife: Product Endorsement and a Rolex 400
- Case 5.3 Descriptive Honesty and Social Media Hype: An 11-Inch Subway vs. a Footlong Subway and Tuna vs. Tuna 410
- Case 5.4 Sears, High-Cost Auto Repairs, and Its Ethical and Financial Collapse 412
- Case 5.5 Kardashian Tweets: Regulated Ads or Fun? 417
- Case 5.6 Political Misrepresentation: When Is It a Lie? 418

Section B**Promises, Performance, and Reality 419**

- Case 5.7 The Ethics of Walking Away and No Eviction During Pandemics 419
- Case 5.8 Pension Promises, Payments, and Bankruptcy: Companies, Cities, Towns, and States 421
- Case 5.9 "I Only Used It Once": Returning Goods 426
- Case 5.10 When Corporations Pull Promises Made to Government 427
- Case 5.11 Intel and the Chips: When You Have Made a Mistake 428
- Case 5.12 GoFundME!!! 432
- Case 5.13 Scarlett Johansson and Disney: Payments for *Black Widow* 433

Unit 6**Ethics in International Business****Section A****Conflicts Between the Corporation's Ethics and Business Practices in Foreign Countries 437**

- Reading 6.1 Why an International Code of Ethics Would Be Good for Business 437
- Case 6.2 The Tennis Player with COVID Visa Problems 444
- Case 6.3 The Former Soviet Union: A Study of Three Companies and Values in Conflict 446
- Reading 6.4 International Production: Risks, Benefits, and That Supply Chain 448
- Case 6.5 Bhopal: When Safety Standards Differ 456
- Case 6.6 Product Dumping 457
- Case 6.7 Nestlé: Products That Don't Fit Cultures 458
- Case 6.8 Doing Business in China: The NBA and Ethical Minefields 461

Section B**Bribes, Grease Payments, and “When in Rome. . .” 465**

- Reading 6.9 A Primer on the FCPA 465
- Case 6.10 FIFA: The Kick of Bribery 469
- Case 6.11 Siemens and Bribery, Everywhere 473
- Case 6.12 Walmart in Mexico 475
- Case 6.13 GlaxoSmithKline in China 478

Unit 7**Ethics, Business Operations, and Rights****Section A****Workplace Safety 481**

- Reading 7.1 Using Two Sets of Books for One Set of Data 481
- Case 7.2 Cintas and the Production Line 484
- Case 7.3 Theranos: The Lab That Wasn’t Safe or Real and Fake the Numbers Until You Make It 485

Section B**Workplace Loyalty 489**

- Case 7.4 Aaron Feuerstein and Malden Mills 489
- Case 7.5 JCPenney and Its Wealthy Buyer 491
- Case 7.6 The Trading Desk, Perks, and “Dwarf Tossing” 492
- Case 7.7 The Analyst Who Needed a Preschool 494
- Case 7.8 Nissan and Carlos Ghosn: Corporate Resources vs. Personal Spending 496
- Case 7.9 Kodak, the Appraiser, and the Assessor: Lots of Backscratching on Valuation 499

Section C**Workplace Diversity and Atmosphere 501**

- Case 7.10 English-Only Workplaces 501
- Case 7.11 Ban-the-Box and Fair Chance: Do You Have Any Criminal Convictions? 503
- Case 7.12 The NFL and Its Rooney Diversity Rule: Coach Flores and the Mix-Up on Texts 504
- Case 7.13 On-the-Job Fetal Injuries 505
- Case 7.14 Political Views in the Workplace 507
- Case 7.15 Facebook, YouTube, Instagram, LinkedIn, and Employer Tracking 509

Section D

Tough Issues and Confrontation in the Workplace 512

- Reading 7.16 The Ethics of Confrontation 512
- Case 7.17 Office Romances and Me Too: McDonald’s *et al.* 516
- Case 7.18 Examples of Other Organizations with Atmospheres of Harassment 518
- Reading 7.19 Creating a Culture Free From Sexual Pressures, Harassment, and Favoritism: Codes, Policies, Investigations, and Confrontation 520
- Reading 7.20 The Ethics of Performance Evaluations 522
- Case 7.21 Ann Hopkins and Price Waterhouse 524
- Case 7.22 The Glowing Recommendation 529

Unit 8

Ethics and Products

Section A

Advertising Content 533

- Case 8.1 Elon Musk and Puffing 533
- Case 8.2 Burger King and the Impossible Vegan Burger 536
- Case 8.3 About Returning That Rental Car and the Gas Tank: Contract Terms 537

Section B

Product Safety 538

- Reading 8.4 A Primer on Product Liability 538
- Case 8.5 Peanut Corporation of America: Salmonella and Indicted Leaders 541
- Case 8.6 Tylenol: The Product Safety Issues 543
- Case 8.7 Ford, GM, and Chrysler: The Repeating Design and Sales Issues 548
- Case 8.8 The Beginning of Liability: Games, Fitness, Fun, and Injuries 556
- Case 8.9 *E. Coli*, Jack-in-the-Box, and Cooking Temperatures 558
- Case 8.10 PGE: Electricity, Fires, and Liability 559

Section C

Product Sales 562

- Case 8.11 Chase: Selling Your Own Products for Higher Commissions 562
- Case 8.12 The Mess at Marsh McLennan 563
- Case 8.13 The Opioid Pandemic 565
- Case 8.14 Frozen Coke and Burger King and the Richmond Rigging 570
- Case 8.15 Adidas and the Intercollegiate Bribery Problems 573
- Case 8.16 Beech-Nut and the No-Apple-Juice Apple Juice 575

Unit 9**Ethics and Competition****Section A****Covenants Not to Compete 581**

- Reading 9.1 A Primer on Covenants Not to Compete: Are They Valid? 581
- Case 9.2 Sabotaging Your Employer's Information Lists before You Leave to Work for a Competitor 583
- Case 9.3 The Hallmark Channel and Countdown to Christmas 584
- Case 9.4 Bimbo Bakery and the Nooks & Crannies 584
- Case 9.5 Starwood, Hilton, and the Suspiciously Similar New Hotel Designs 586

Section B**All's Fair, or Is It? 589**

- Reading 9.6 Adam Smith: An Excerpt from the Theory of Moral Sentiments 589
- Case 9.7 The Battle of the Guardrail Manufacturers 590
- Case 9.8 Bad-Mouthing the Competition: Where's the Line? 594
- Case 9.9 Online Pricing Differentials and Customer Questions 594
- Case 9.10 Brighton Collectibles: Terminating Distributors for Discounting Prices 595
- Case 9.11 Park City Mountain: When a Competitor Forgets 596
- Case 9.12 Electronic Books and the Apple versus Amazon War 596
- Case 9.13 Martha vs. Macy's and JCPenney 598
- Case 9.14 Mattel and the Bratz Doll 599

Section C**Intellectual Property and Ethics 602**

- Case 9.15 Louis Vuitton and *The Hangover* 602
- Case 9.16 Forcing Farmers to the Dealerships: That Right to Repair Goes Public 603
- Case 9.17 Tiffany vs. Costco 604

The Ethical Common Denominator (ECD) Index: The Common Threads of Business Ethics 607

Alphabetical Index 617

Business Discipline Index 621

Product/Company/Individuals Index 627

Topic Index 657

Preface

For many years, the Josephson Institute conducted a nationwide survey of high school students and found that 51% to 65% admitted to some form of academic dishonesty, whether turning in downloaded or unsourced papers or copying a classmate's answers during an exam. Interestingly, the figure could be somewhat higher because the work in surveying the students found that the definition of cheating was not always clear. When the Josephson researchers asked the high school students if they had copied another's homework, 76% said that they had but did not consider it cheating. "Teamwork" was their label for this practice. The International Center for Academic Integrity (ICAI) is dedicated to the work of educating college students about the importance of academic integrity and how to prevent cheating. Scholars at ICAI meetings have found that while the number of students who self-report cheating is going down, the number of cheating incidents reported by faculty is increasing. The late professor Donald McCabe of Rutgers spent his academic career researching cheating by college students and found that it grew from 11% in 1963 to 49% in 1993 to 75% in 2006.¹ Another study puts the level at 85%.² Professor McCabe also found that MBAs have the highest rate of self-reported academic dishonesty (57%) of all graduate disciplines. During the COVID pandemic, cheating became pandemic. As one expert phrased it, "Cheating became habitual."³ This headline on another cheating scandal is ironic and not particularly encouraging, "Dartmouth Suspends 64 Students for Cheating in 'Sports, Ethics, and Religion' Course."⁴

All the studies and data indicate that there remains a disconnect between conduct and an understanding of what ethics is. The Josephson Institute also found that the high school students who report that they cheat feel very comfortable about their behavior, with 95% saying they are satisfied with their character and ethics. Perhaps we have begun to believe that cheating is not an ethical issue.

Research indicates that if students cheat in high school, they will bring the practices into college. And if they cheat in college, they will bring those practices into the workplace. A look at some of the events in business since the publication of the ninth edition of this book tells us that we are not quite there yet in terms of helping businesspeople understand when they are in the midst of an ethical dilemma and how those dilemmas should be resolved. Following the collapses of Enron and WorldCom, and the ethical lapses at Tyco and Adelphia, we entered the Sarbanes-Oxley era, with fundamental changes in the way we were doing business and audits. However, we did not make it even five years before we found ourselves

Never trust the people you cheat with.
They will throw you under the bus.

—Marianne M. Jennings

Maybe if you did ethics, you would not
have to do so much compliance.

—Marianne M. Jennings

I diverted the auditor while the others
created the ledger the auditor wanted
to back up the trades for securities
we said we owned. When it came
hot off the office printer, they cooled
it in the refrigerator and the tossed it
around the office like a medicine ball
to give it a well-worn look that an
ordinary ledger would have.

—Former Madoff Securities employee
on how they fooled the auditors

¹The International Center for Academic Integrity (ICAI) study was conducted by the late professor Donald McCabe on a regular basis over the years. This survey had 4,500 student respondents. For more information on Professor McCabe and his work on academic integrity and ICAI, go to <https://academicintegrity.org>.

²Corey Ciochetti, "The Uncheatable Class," Proceedings, Academy of Legal Studies in Business, August 2013 (unpublished paper).

³Julie Norgon, "Cheating Is the Norm in Some Virtual Classes," *Wall Street Journal*, December 23, 2020, p. A12.

⁴*National Review*, February 9, 2015, p. 12.

in the midst of the collapse of the housing market and revelations about shoddy, undisclosed lending practices for home mortgages. When mortgagors defaulted on those risky loans, the derivative securities based on mortgage pools crashed in value. The end result was a dramatic drop in the stock market and a recession. As the reforms enacted by the Dodd–Frank bill (Wall Street Reform and Consumer Protection Act) were being implemented, we learned that British banks were fixing the LIBOR interest rate, and Bernie Madoff pulled off an 18-year, \$50 billion Ponzi scheme. From 2015 through 2017, we witnessed the auto industry’s ethical lapses. GM paid a billion-dollar fine for its failure to disclose the problems with its engine switch, a defect that caused the cars to stop suddenly and resulted in fatalities when those sudden stops came on freeways. Volkswagen had installed software in its diesel cars that allowed the company to cheat on emissions levels, a scandal that cost the company \$35 billion in fines, penalties, and damages. Employees at Wells Fargo created 3.5 million fake accounts so that they could meet their quarterly goals for new business. WeWork (We) tried to go public, but when its financial statements were scrutinized, the company nearly collapsed instead of issuing a public stock offering. When Hollywood producer Harvey Weinstein’s sexual harassment behavior became public, CEOs, television anchors, actors, and Olympic trainers and physicians faced litigation from “Me Too” victims. Not a news day passes without some story about a business and its ethical lapses.

Beyond the business events that result in new regulations, fines, and prison time, there are the day-to-day ethical breaches that capture media headlines and cause continuing concerns about the ethical culture of business. There are the questions about television reality shows: Was the storage locker a setup, or were those things really in there? Why were graduates not told about the cheaper options available for repaying their student loans? Did Subway really cut us short with an 11-inch sub sandwich when we thought we were buying a footlong? The world of sports brought us such questions as: Is it really cheating if everyone does the same thing? Horse racing saw the 2021 Kentucky Derby winner, Medina Spirit, lose his title because postrace drug tests found a prohibited substance. Even parents were caught paying large amounts to coaches, proctors, and fake nonprofits to get their children admitted into Ivy League schools.

From analysts not offering their true feelings about a company’s stock to the factory workers not safely producing a peanut base for cookies and crackers, pressure often got in the way of ethical clarity in business decisions. Those pressures then translated into ethical lapses that involved everything from emissions falsification to earnings management that crosses over into cooking the books and fraud. Weak product designs and product defects often emerge as deliberate actions documented by a chain of memos or emails that reflect employee concerns about product safety. College sports, baseball, and politics all have had their ethical issues. The cycles between major ethical and financial collapses seem to be growing shorter. Businesses do exist to make a profit, but business ethics exists to set parameters for earning that profit. Business ethics is also a key element of business decision processes and strategies. The cases in this book teach us that the long-term perspective, not ethical shortcuts, serves businesses better in that profit role.

This book of readings and cases explores ethical parameters and their importance. This book teaches, through detailed study of the people and companies, that business conducted without ethics is a nonsustainable competitive model. Ethical shortcuts translate into a short-term existence. Initially, these shortcuts produce a phenomenon such as those seen with banks crypto currency, mortgage lenders, auto manufacturers, and even nutritional supplement producers. In some cases, the companies’ conduct was self-destructive. For a time, they were at the top of their games—flummoxing their competitors on how they were able to do what they were

doing, and so profitably. But then that magnificent force of truth finds its way to the surface, and the company that does not factor in the ethics of its decisions and conduct finds itself falling to the earth like a meteor's flash. Long-term personal and business success demand ethics. This edition takes a look at everything from horse racing, to the world of college sports, to cheating to get good grades, to the downfall of so many. This book connects the moral sentiments of markets with the wealth of nations. Business without ethics is self-destructive.

New to This Edition

A Slightly New Structure and Approach to Address the Chronic Repetition of the Ethical Lapses

We've been down this road before, and the historic patterns are now emerging for study and insight. In 1986, before Ivan Boesky was a household name and Michael Douglas was Gordon Gekko in *Wall Street*, I began teaching a business ethics course in the MBA program in the College of Business at Arizona State University. The course was an elective. I had trouble making the minimum enrollments. However, two things changed my enrollments and my fate. First, the American Association of Collegiate Schools of Business (AACSB) changed the curriculum for graduate and undergraduate business degree programs and required coverage of ethics. The other event was a series of events. Indictments, convictions, and guilty pleas by major companies and their officers—from E. F. Hutton to Union Carbide, to Beech-Nut, to Exxon—brought national attention to the need to incorporate values in American businesses and instill them in business leaders.

Whether out of fear, curiosity, or the need for reaccreditation, business schools and students began to embrace the concept of studying business ethics. My course went from a little-known elective to the final required course in the MBA program. In the years since, the interest in business ethics has only increased. Following junk bonds and insider trading, we rolled into the savings and loan collapses. Once we had that straightened out, we rolled into Enron, WorldCom, HealthSouth, Tyco, and Adelphia. We even lost Martha Stewart along the way. We were quite sure—what with all the Sarbanes–Oxley changes and demands on boards, CEO, CFOs, and auditors—that we were through with that level of misconduct. We were, however, wrong. New Century Financial, one of the first of the subprime lenders to collapse, found one angry bankruptcy trustee. The trustee's report concluded that he found astonishing the acquiescence of the auditor to the client's refusal to write down the bad loans in what he called "the post-Enron era." The Lehman Brothers bankruptcy trustee found a letter from a risk officer at the investment banker who tried to warn the CEO and CFO that the firm's financial reports violated its code of ethics. The trustee also found that the risk officer had been fired.

Three decades plus after Boesky, we have the GM engine-switch case, which reads very much like the Pinto exploding case tank of the 1970s, and wonder, "Do they not see the ethical and legal issues? Do they just not know that they are crossing these lines? Do they see the patterns from business history?" The good thing about repetitive patterns is that we gain insight into the paths, the reasoning, and the pressures of those involved. The key is to bring out those patterns and train our new business leaders to recognize them and, most importantly, to stop the train of self-destruction those patterns set off. This edition is reorganized to offer greater insights, knowledge, and perspective on these patterns for a new generation of leaders. Today, nearly 100% of the *Fortune* 500 companies have a code of ethics. We are up to over 75% of companies having some form of ethics training. But we are not quite there until our business leaders grasp the perspective of ethics and

its relationship to economics, organizational behavior, company culture, reputation, and financial performance. This edition is structured to walk us through all aspects and types of ethical dilemmas and how we can cope with the pressures that often deprive us of good ethical analysis.

Unit 1: Ethical Theory, Philosophical Foundations, Our Reasoning Flaws, Types of Ethical Dilemmas, and You

Unit 1 addresses the following questions: What is this ethics thing? How do I manage to work philosophy into my decision processes? How do I find solutions to ethical dilemmas? How do I know when I am really analyzing as opposed to rationalizing or succumbing to pressure? This unit begins with introspection, a right-out-of-the-blocks focus on developing a credo—a way of helping us think about ethical issues in advance and decide what we would and would not do in a situation. If we think about issues in advance, then when the pressure hits, we at least have the cognitive dissonance for realizing that we did see the issues differently when we were not under so much pressure.

The cases and readings in Units 1 and 2 have been realigned to place personal ethics in Unit 1 along with all of the topics and skills needed for analysis. The students have a solid foundation before heading into Unit 2 and its transition to the business cases.

Unit 2: Solving Ethical Dilemmas in Business

Once we have focused on our ethical standards and ourselves, we move into analysis of ethical issues in business. This unit offers the introspection of this question: Are my personal ethical standards different when I am at work? Should they be? Why are they different? Further, the magnitude of the mistakes that businesspeople continue to make, despite all the warnings from ongoing debacles, did not indicate that these were close calls. Something had gone awry in their ethics training in business school for them to drift so far from virtue. I continue to emphasize in teaching, consulting, and writing that helping students and businesspeople see that personal ethics and business ethics are one and the same and that principle is critical to making ethics a part of business culture. Virtue is the goal for most of us in all aspects of our lives. Whether we commit to fidelity in a personal relationship or honesty in going back into the store to pay for the laundry detergent that we forgot was on the bottom of our grocery cart, we show virtue. Ethics in business is no different, and we need not behave differently at work than we do in that grocery store parking lot as we make the decision to be honest and fair with the store owner. Substitute a shareholder and the disclosure of option dates and true costs, and we have our laundry detergent example with a stock market twist.

This unit also focuses on the patterns that interfere with good ethical analysis in business, such as pressure, hubris, and a singular focus on moral relativism, as opposed to a deeper look at the consequences of reliance on that model. This unit allows us to switch back and forth from personal dilemmas to business dilemmas so that we are able to see that the ethical issues are the same in our personal lives as they are in business—only the fact patterns change. We can see that honesty is important, whether studying the complexities of an offshore oil rig construction or the redesign of a commercial jet or answering the simple questions about how

we are reporting and recording what our daily fitness trackers say. Instructors and students gain the ability to reduce the most complex of financial cases to the common denominators found in returning that laundry detergent to the store—Is this honest? Is this fair? With this understanding of the common denominators, we are free to focus on the psychology of our decision processes rather than on the details of the underlying transactions. The obligation of good faith in dealing with each other does not change simply because we are buying a CDO rather than Tide. This unit also includes the overarching theme of the book over all of its editions: plenty of real-life examples from newspapers, business journals, and my experiences as a consultant and board member. Knowing that other instructors and students needed examples, I have turned my experiences into cases and coupled them with the most memorable readings in the field to provide a training and thought-provoking experience on business ethics.

Unit 3: Business, Stakeholders, Social Responsibility, and Sustainability

Unit 3 offers us the bigger perspective—once we slog through the decision processes of fraud, embezzlement, puffing résumés, and cheating on our travel expenses, we move to discussion and understanding of the role of business in society. The cases in this unit are broken into an introduction that covers economics, social responsibility, and business, including the historical perspectives on corporate social responsibility. A second section focuses on applying social responsibility and stakeholder theory with cases on Fannie Mae’s collapse and pharmaceutical pricing. A third section of this unit focuses on leadership, stakeholders, and the regulatory cycle. Cases in this unit focus on the role of business in pharmaceutical pricing, Fannie Mae and moral hazards, wages, cancel culture, and environmental and sustainability issues. A final section focuses on the government as a stakeholder.

Unit 4: Ethics and Company Culture

Unit 4 is the psychology section that tackles companies’ ethical lapses, with the realization that beyond individual ethical lapses (as with one bad apple), there are barrel factors that must be addressed to prevent future ethical lapses. This unit, through the finance cases and the weaving in of corporate governance, explores those barrel factors with the recognition that beyond individual lapses, there are company, industry, and societal norms that do cause companies and individuals to move that line away from ethical standards to “everybody does it” here at the company, in our industry, and in society. The cases here explore how incentives, organizational behavior practices and processes, reporting mechanisms, industry practices, and societal norms contribute to poor ethical analysis, decisions, and self-destructive behavior. Recognizing and addressing those barrel issues is the theme of Unit 4.

Culture is universal, and in this unit you will find cases involving the government’s launch of the Space Shuttle despite warnings about the effects of freezing temperatures on the rocket boosters, publicly traded companies, and the ethical lapses of nonprofit organizations. The Wells Fargo case is now included as an example of how a culture can drive employees to just “make stuff up” to meet their sales quotas. The psychology of organizations and employee decision making in organizations does not change because they work in a nonprofit or government agency. Nonprofit employees have the pressures of raising funds.

Pressure, compensation systems, cultural factors, and governance issues all play a role in culture and ethical lapses. Government employees experience the pressure of dealing with the powerful as well as the prospect of losing their jobs. The Atlanta Public School system experienced nearly a decade of administrators and teachers falsifying children's test scores. The issues these employees and organizations face are the same as those in for-profit businesses. The principles of ethics are universally applicable to all organizations.

Unit 5: Ethics and Contracts

This unit has a special focus on the ethics of contracts, from advertising through negotiations to performance. Issues related to Johnny Depp's battles with his lawyers, Kardashian tweets, pension promises, and Scarlett Johansson's revenue disputes with Disney illustrate the battles over legal vs. ethical. The ethical challenges in contract formation and performance, again, cross all sectors, so this unit has nonprofit and government examples integrated as well.

Unit 6: Ethics in International Business

This unit helps students understand the need for better and deeper ethical analysis of the issues in international business and the importance of analyzing the countries and their ethical standards prior to doing business there. The section addresses the risks and costs of ethical lapses and succumbing to local standards as opposed to establishing company standards prior to those pressure points that occur in international competition. Case studies in international business are rich with the actions taken and the sheer extent of corruption, including a look at the bribery involving FIFA and the Foreign Corrupt Practices Act and GlaxoSmithKline's bribery of physicians in China. New to this edition are cases on the effects of COVID on supply chains and the NBA's relationship with China.

Unit 7: Ethics, Business Operations, and Rights

This revised unit draws together all the cases on workplace issues that affect employees and managers: from safety to conflicts, to privacy, to diversity, to the lost art of confrontation about employee conduct. This section on confrontation is the one for understanding how ethics bumps into production demands, technology, profits, and privacy, including a new case about Theranos and its collapse due to fraud. Also new is a case on Carlos Ghosn, the former CEO of Nissan, and his use of company resources. From honesty in letters of recommendations to felony convictions to office romances, all matters that affect employers and employees are now in one unit.

Unit 8: Ethics and Products

Unit 8 includes all the issues related to product development, sales, safety, and advertising. From Elon Musk "puffing" about going private to the tricky language on fuel in rental contracts, this section focuses on the ethical issues that involve the how, what, and where of sales of products. The issues of social responsibility and products are found here in cases that address everything from Johnson & Johnson's COVID-19 vaccine to the PG&E transmission lines and resulting fires. There are issues of risk in trying to be safe and necessarily deep analysis when human life is at stake.

Unit 9: Ethics and Competition

Unit 9 has the luxury of focusing entirely on competition. This unit has expanded coverage of the ever-growing concerns about covenants not to compete and employee breaches of those covenants. The nooks and crannies in Thomas' English muffins are a competitive edge. Even the Hallmark Channel had to deal with the issue of talent poaching when it faced competition from another channel with Christmas movies. The saga of the competitors selling guardrails to governmental highway builders is updated and expanded because the litigation revealed the fierceness of competition in this industry. The societal issues of possible infringement at Costco of Tiffany engagement rings are emphasized as students analyze cases that illustrate the costs of not honoring intellectual property rights.

What's New and What's Back

The tenth edition continues the features students and instructors embraced in the first nine editions, including both short and long cases, discussion questions, hypothetical situations, and up-to-the-moment current, ongoing, and real ethical dilemmas. Some of the long-standing favorites remain by popular demand—such as the Enron case and Union Carbide in Bhopal—with their timeless lessons in doing the right thing.

Compare & Contrast

The tenth edition continues the new training tool introduced in the previous edition to help businesspeople who are working their way through an ethical dilemma. Following the discussion questions for many of the cases, the “Compare & Contrast” questions continue. These questions provide an example of a company making a decision different from the one made by management in the case at hand. For example, in the Tylenol case (Case 8.6—an “oldie but goodie” that has been updated for this edition to include the company's problems with metal flecks in its infant products and the issues with COVID-19 vaccines), students find a question that highlights this company's past conduct in comparison with its conduct in a current situation in which the FDA has accused the company of surreptitiously buying up tainted product in order to avoid a recall. There is a contrast between its recall of a product in the 1980s, which was so rapid and received so much acclaim, and its behavior in this event. Why do some companies choose one path, whereas others succumb to pressure? What was different about their decision-making processes? What did they see that the other companies and their leaders did not take into account?

This feature is a response to those who worry that students are not given examples of “good companies.” The problem with touting goodness is that it is impossible to know everything a company is or is not doing. For example, Fannie Mae was named the most ethical company in America for two years running. Yet, it had to do a \$7 billion restatement of earnings and is struggling as a shored-up government entity. BP was an environmental darling for nearly a decade for its responsible environmental programs. However, the explosions at its Deepwater Horizon well and Texas City refinery along with the Alaska pipeline failure illustrate cultural problems within the company. There is a risk in learning of goodness if that goodness is superficial or limited. Studying individual scenarios of contrasting behavior is the learning tool, not the touting of a single company that can always have a lapse. There are no saints in this journey, and keeping the text credible requires a recognition of that limitation but uses it to emphasize the vigilance we all need, as individuals and in business, to avoid lapses and progress in moral development.

Ethics in Action

This new feature provides a shorter follow-up hypothetical or a deeper thought question about the case to further develop analytical skills. For example, in Unit 1, students can tackle a situation in which a mother “boundary hops” to get her children into a better public school system and ends up with a criminal charge. In Unit 2, we have a situation in which employees are manipulating the numbers on their fitness trackers to reach the goals that will give them lower health insurance payments. Unit 3 discusses the boycott of Major League Baseball’s All-Star Game in Atlanta because of its new voting laws. Unit 4 asks students to determine whether they would give up their paychecks by quitting their job at a company when the company’s practices are troubling to them.

This feature is found in each unit and provides a brief, thought-provoking example for reflection and analysis.

Why Didn’t They Say Something?

This new feature provides a question about a case or example that asks students to explore how they would feel if the same circumstances if they were an employee who saw an ethical or legal issue and said nothing. Exploration of their feelings, reactions, and concerns helps them understand how easy it can be to “just let it go” when you are in the midst of an ethical issue. This feature provides training for spotting ethical issues and learning how they can grow into organizational problems.

History Repeats: Ethical Lessons Not Learned

This feature weaves in another example or refers back to an earlier case in a different unit to show the repeating patterns in organizations that get into ethical difficulty. This tool helps develop application skills, as students use what they have learned from examples and case studies to recognize signs, symptoms, and patterns when they are living in an unfolding ethical dilemma as opposed to studying one in which they know the outcome. For example, since the time of the Penn State case that involved sexual molestation of children on campus, two others major institutions (Michigan State and Ohio State) have had eerily similar conduct on their campuses. Sometimes simply studying history of ethical and legal lapses provides as way to self-correct.

Famous Lines from Art & Literature

There are so many quotes, lines from movies and literature that apply to ethics or to a particular case. Those quotes and lines are tools in learning because they help us to remember the concepts you are studying. This new feature provides short, pithy thoughts, quotes, or a few lines of dialogue to show the presence of ethical dilemmas all around us. In addition, we see how many times characters see the ethical issues or offer bottom-line assessments in difficult situations but hesitate to act or simply ignore the issue.

COVID-19 Cases and Discussion

The issues of the pandemic, vaccines, and masks are sprinkled throughout this edition. There is the nursing home death rate manipulation issue in New York and the issues with vaccines. In Unit 1, there is the example of how people cut in line to get classified for the first group to obtain vaccines. In Unit 5, there is the issue of not paying your rent because of COVID-19 when you were not affected economically but rather benefited from eviction protections. The pandemic brought out our true character, as we grappled with personal risk and learned that we could game the system.

Key Terms

New to this edition is a list of key terms from the cases and readings. The list is found at the end of each unit and the terms are defined in the glossary.

Learning Objectives

New to this edition is a summary overview of the key learning points of each unit. Provided at the beginning of each unit, the objectives summarize the skills and knowledge students should acquire in studying the unit.

Finding and Studying the Cases and Readings

The tenth edition continues the classic readings in business ethics that provide insight into the importance of ethics in business and how to resolve ethical dilemmas. The tenth edition also continues to include integrated readings throughout the book to provide substantive thoughts on the particular areas covered in each section. The organizational structure and indexes, continued from the ninth edition, make topics, companies, people, and products easy to locate. A case can be located using the table of contents, the alphabetical index, the topical index, the people index, or the product index, which lists both products and companies by name. There is also an index for business disciplines grouping the cases and readings by accounting, management, and the other disciplines in colleges of business. A case can also be located using the “Ethical Common Denominator Chart,” which is explained below.

How to Use the “Ethical Common Denominators across Business Topics Chart”

The Ethical Common Denominators across Business Topics chart, or simply the ECD chart, is a tool that appears along with the book’s indexes and can be used to help students understand the point that facts change, but ethical dilemmas remain the same. This chart provides some ease for that slight discomfort some instructors have with the financial cases and helps students understand that underlying every ethical dilemma are common patterns. The topic area could be finance or marketing, but the categories of ethical issues, the psychological forces, and organizational pressures remain the same. And the ECD shows the common thread in all topic areas of the need for solid ethical analysis.

The ECD chart provides instructors with the opportunity to structure their courses in a way that is comfortable for them. All an instructor needs to know is a general business term; that term can then be referenced in the ECD chart in various ways for instruction, according to instructor preference, needs, and time constraints. The chart groups the cases by the usual business and ethics topics. If, for example, you wanted to cover the environmental cases all in one fell swoop, simply go to “environmentalism” or “sustainability” to find the cases and readings listed there. However, if you were looking for a variety of fact patterns to teach, for example, the role of pressure in ethical decision making, you could look under that topic and find the BP case (also an environmental case) as well as the financial factors in the Enron case. If you wanted students to see what pressure can do in the area of contracts, you can use the Wells Fargo case to show how employees make “sales” when incentivized to do so. Students will learn that pressure affects

all aspects of business operations. Adam Smith and his theories on markets appear in Section 9, but there is no reason this reading could not be shifted back to the coverage of the philosophical foundations.

An instructor can mix in cases from all the units in covering ethical analysis. The ECD includes a case from each unit under “Ethical Analysis,” because you can pick and choose what topics to cover as you teach how to analyze ethical issues. The ECD chart allows you to introduce that broad exposure to the pervasiveness of ethical issues early in your course, or you can simply use the cases in that unit and go on to topical areas. The chart also allows you to break up the finance cases into areas of discussion on psychology, culture, organizational behavior, hubris, and pressure. You need not focus on the structure of CDOs and secondary instruments markets to understand the culture at Lehman and how its culture led its sales force and managers down a path that proved to be self-destructive. Likewise, you can mix in a Ponzi scheme in a nonprofit to help students understand how similar the cases are in the issues missed as those running the organizations pursued a business model that could not be sustained over time. The case on the gifts to the governor of Virginia teaches students about conflicts, but it would fit well in Unit 1 as you ask students to analyze the subtle missteps that lead to larger ethical issues. The ECD chart allows a mix-and-match approach or a straight topical approach—both of which allow us to see that the facts change, but good ethical analysis applies, always.

Supplements

Additional instructor resources for this product are available online. Instructor assets include an Instructor’s Manual, PowerPoint® slides, and a test bank powered by Cognero®. Sign up or sign in at www.cengage.com to search for and access this product and its online resources.

Acknowledgments

This book is not mine. It is the result of the efforts and sacrifices of many. I am grateful for my many colleagues around the world who continue to provide me with insights, input, and improvements.

I am grateful for the students and professors who continue to help me with ideas for new cases, corrections (those typos!), and insights that help me as I work on each edition.

I am fortunate to have Jennifer Ziegler onboard as my project manager. Jenny has worked with me on several books with great patience and professionalism all while being most pleasant. I continue to love editors. Where I see only deadlines, they see both the big picture of the book and its details: they have vision. I am grateful for all the editors over the years who had a vision in supporting this book at a time when ethics was not a hot topic. They trusted me and understood the role of ethics in business and supported a project that was novel and risky. From the headlines, we now know that ethics instruction in business and business schools is a growth industry.

Kris Tabor and I have been working together since 1986. This 36-year partnership has been delightful and critical to all my work. There is no better eye for detail when it comes to manuscripts and page proofs. She knows how valuable a role she plays each time I send this email response to one of her corrections, “How on earth did you catch that?”

I am grateful to my late parents for the values they inculcated in me. Their ethical perspective was an inspiration; a comfort; and, in many cases, the final say in my decision-making processes. I am especially grateful to my father for the continual research on and quest for examples of ethical and not-so-ethical behavior in action that he provided throughout his life. I am grateful for my family’s understanding and support. I am most grateful for the reminder their very presence gives me of what is truly important. In a world that measures success by “stuff” acquired, they have given me the peace that comes from devotion, decisions, and actions grounded in a personal credo of “others first.” This road less taken offers so many rich intangibles that we can, with that treasure trove, take or leave “the stuff.” My hope is that those who use this book gain and use the same perspective on “stuff.”

Marianne M. Jennings

Professor Emeritus of Legal and Ethical Studies in Business

W. P. Carey School of Business

Arizona State University

marianne.jennings@asu.edu

Unit 1

Ethical Theory, Philosophical Foundations, Our Reasoning Flaws, Types of Ethical Dilemmas, and You

In the 21st century will occur something worse than the great wars, namely, the total eclipse of all values.

The pain the human beast will feel when he realizes he can believe in ... nothing ... will be worse than any he has felt before.

—Nietzsche

I would disguise myself in my nice white-girl clothes and go to the salad bar and ask for a new plate as if I had already paid. I'm not proud of it, but I'm desperate. It's survival of the fittest.

Erin Gilmer, attorney and advocate for those with disabilities, on how she got food when she was broke.¹

Cheating can become habitual. With kids, you're trying to develop good habits so they can apply them to later situations in life.²

Professor Steven Mintz
California Polytechnic University

Learning Objectives

- Explain what we mean by “ethics.”
- List the categories of ethical dilemmas and give examples of each.
- Discuss the sequential process for analyzing ethical dilemmas.
- Describe the psychological tools we use to justify unethical conduct.
- Discuss the philosophical schools of thought on ethics and give examples of the application of their theories to ethical dilemmas.
- Provide examples of questions to apply in resolving ethical dilemmas.
- Apply the ethical schools of thought and questions to the cases and questions in the chapter to develop answers to the ethical dilemmas presented.

Before we begin the study of business ethics, we should do some introspection: What does ethics mean to you personally? The purpose of this unit is to provide you with an introspective look at yourself and your views on ethics before we bring the business component to you and ethics.

This unit explains four things: What ethics are, the types of ethical dilemmas, our ethical reasoning flaws, and how to resolve ethical dilemmas. The materials in this unit serve as the foundation for the study of issues in business ethics.

¹Clay Risen, “Erin Gilmer, 38, Lawyer and Disability Rights Activist,” *New York Times*, July 19, 2021, p. B6.

²Julie Jargon, “Cheating Is the Norm in Some Virtual Classes,” *Wall Street Journal*, December 23, 2020, A12.

Section

A

Understanding Ourselves and Ethical Lapses

Reading 1.1

You, That First Step, the Slippery Slope, and a Credo

Watch That First Step Because You Are Starting a Slippery Slope Descent!

We tend to look at folks who get into ethical and legal trouble and say, “I know I would never behave like that.” For example, you would look at an executive who embezzled almost \$280,000 from an employer and conclude, “I know I could not steal that much money from anyone.” You probably would not, but you are making your evaluation based on the final total — the full \$280,000. You did. Not see the tiny steps that led to that amount and the eventual downfall. In all likelihood, the executive began the years-long embezzlements by accidentally using a company American Express card to pay for the airline tickets for a family ski trip. We do not notice the mistake until the last minute when leaving for the trip and conclude, “I will just take care of it when I return from vacation.” Upon return, work re-entry was difficult and the error continued to go unnoticed. Then began of use the card for more personal charges, charges that increased in number and size.

There are neurological studies that indicate brain activity changes when ethical lapses become a way of life. Dr. Tali Sharot of the University College of London found that the more comfortable we get with unethical choices, the easier it is for our brain to accept what we are doing. “At first, even a little lie provokes a big response in brain regions associated with emotion, such as the amygdala and insula. The tenth time you lie, even if you lie the same amount, the response is not that high. So while lying goes up over time, the response in your brain goes down.”³ Dr. Sharot is describing the infamous “**slippery slope**.” Once we begin unethical behavior, the unscientific concept of the slippery slope, which is moving downward at an increasing pace with our unethical choices, is now known in science through studies of brain activity. We keep going, and even grow our deceptions because our brains get comfortable with our actions.

The proverbial slope does become more slippery. Professor Dan Ariely of Duke University found that folks who knowingly wore fake designer sunglasses were more than twice as likely to cheat on an unrelated task given to them as those

³Neil Garrett, Stephanie C Lazzaro, Dan Ariely, Tali Sharot, “The Brain Adapts to Dishonesty,” *Nature Neuroscience* (2016), <https://www.sciencedaily.com/releases/2016/10/161024134012.htm>.

Famous Lines from Art and Literature

“It’s a simple plan.”

In Scott Smith’s book *A Simple Plan*, the lead character, Hank; his brother, Jacob; and a friend, Lou come upon a small plane buried in the rural snowdrifts of Ohio. Upon opening the plane’s door, they find the decomposing body of the pilot and a duffel bag full of \$100 bills in \$10,000-dollar packets—\$3 million total. Initially, Hank tells his brother and Lou not to touch the money so that the police can conduct a proper investigation, but then a plan is hatched. Lou and Jacob want to keep one packet of the money and ask Hank what’s wrong with doing that. Hank scolds them and says, “For starters, it’s stealing.” Hank reminds them that with so much money involved, someone would be looking for it and would know that they had taken a packet. Hank also reminds them that even if he didn’t take a packet, he would be an accomplice if Jacob and Lou did.

Lou then proposes a solution: take it all. Hank wisely warns the two that they could not spend it because everyone in their small town would know. So, Lou proposes a “simple plan.” They will sit on the money for a while, and when the investigation is over and things have cooled down, they can move away and live on their shares of the money. Again, Hank reminds them that it is stealing. But Jacob calls it by a different name: lost treasure. Hank succumbs. Such an easy thing, a simple plan.

But the initial decision was flawed. Whatever its soft label, their decision to walk away with the duffel bag was indeed taking something that did not belong to them. From there, the characters begin a game of whack-a-mole. With each twist and turn, they have to cross another line to cover up their seizure of the duffel bag. There is a lie to the sheriff and the problem of a neighbor seeing them near the plane, and more problems come at them each day. Each new problem requires a resolution that involves more dastardly choices. The characters keep slipping, eventually committing murder.

who were not wearing the fake sunglasses.⁴ Once we have made peace with trademark infringement, we are willing to cross other lines. We just get comfortable with each step.

Ethical Reasoning Lost in the Pressure of Doing Our Jobs

Perhaps the most important part of studying ethics is studying how and why very smart and capable people made the poor ethical choices that they did. As you study, try to avoid judgment or feeling superior to those who have made mistakes; real learning about ethics and ethical lapses comes with understanding how easily those ethical missteps can happen. They happen through flaws in our analyses and gradual declines in disciplined reasoning processes. Sometimes those processes are lost in the pressures we feel to meet our goals, numbers, or performance metrics. Doing what we do to meet our job assignments can allow us to feel justified in our actions. For example, reasonable minds can differ on depreciation formulas. And you may make a change in your company’s depreciation formula that makes your financial performance for the quarter more favorable. But just like the executive’s

⁴Dan Ariely home page, <http://web.mit.edu/ariely/www/MIT>. Accessed July 20, 2010.

Why Didn't They Say Something? 1.1

The Travel Expense That Got Away

The executive's assistant was responsible for submitting the receipts for the executive's company travel and reconciling what was on the card statement vs. what was on the receipts. The paperwork and verification then went to Accounts Payable. The receipts submitted for the air tickets were for a destination different from all the other trips the executive took that month for business. There were no hotel bills at the resort even though they had flown there. There was no documentation about who the executive met with, any meetings attended, or receipts for meals. At that moment, there were questions the assistant could have raised.

1. Why did they not raise those questions?
2. What goes through your mind when you see someone at work or in your classes do something unethical?

credit-card use, once we cross a line, it becomes easier to keep going. Changing the depreciation formulas becomes a way of life and rises to such a level that you touch down in accounting fraud. "I would never commit accounting fraud" is easy to say. Could you be persuaded to change depreciation formulas "just this one time"? That initial small question, with reasonable minds differing, is the point at which we need to understand the implications of what we are doing. That focus on that first step is a critical part of ethical analysis.

Famous Lines from Art and Literature

"Watch that first step. It's a doozy." Ned Ryerson to Phil Connors (Bill Murray) in the film, *Ground Hog Day*.

Framing Ethical Issues Carefully and Using Business History

When facing an ethical dilemma, you need a process for analysis and reasoning, one that finds you looking at ethical issues more deeply instead of through the prism of emotions, desires, and financial and time pressures. To understand how to think more deeply about all your ethical choices you will study not just ethics; you will be studying business history. And you will also be studying you. Try to relate your vulnerabilities to those involved in the cases, questions, and "What would you do?" problems. Remember as you read these cases that you are reading about bright, capable, and educated individuals who made mistakes. The mistakes often seem clear when you study them in hindsight. But the ethical analyses of those who made those mistakes were flawed at the initial decision point because of the way they framed the issue. They framed their ethical analysis within the pressures they felt, a lack of complete and accurate information (that they may or may not have wanted) or, sometimes, the stuff of Greek tragedies, hubris. You will collect examples, stories of companies and their ethical collapses, and the realities of the consequences ethical missteps bring. That knowledge will help you spot those decision points and flaws in framing and reasoning.

As you study the cases in this unit and the others that follow, try not to be too hard on the human subjects. Learn from them and try to discover the flaws in their ethical analyses. Where were their decision points? What did they miss? What flaws were there in their analyses?

Ethics in Action 1.1

Boundary-Hopping for a Better Education

Kelley Williams-Bolar was a single mother in 2011, living in Akron, and trying to earn her degree at the University of Akron. Her two daughters were attending Akron School District public schools where the test scores were low, and the facilities were crumbling. Ms. Williams-Bolar's father lived in the Copley-Fairlawn School District. The Copley-Fairlawn School District met all 26 of Ohio's educational standards. The Akron School District met only four of those standards.

Ms. Williams-Bolar's girls spent time with their grandfather, Edward Williams. Ms. Williams-Bolar decided to list her father's address as her and her girls' address and got them into the Copley-Fairlawn District. Ms. Williams-Bolar's father took them to school each day.

Copley-Fairlawn hired a private investigator to follow Ms. Williams-Bolar and her girls and found that she was "boundary-hopping" or "district-hopping," a felony in Ohio. She and her father were both charged. They went to trial because they did not believe they were guilty. They did not believe that they had done anything wrong and did not know that what they were doing was a crime. The jury in Edward Williams's trial could not reach a verdict. Ms. Williams-Bolar was convicted of several charges and received two five-year sentences. Her sentence was suspended to 10 days. The judge said that the sentence was necessary to stop others thinking of defrauding the system.⁵ Governor John Kasich did grant her partial clemency, reducing her felony convictions to misdemeanors.

1. How do you react emotionally to the decision Ms. Williams-Bolar faced?
2. What pressures was Ms. Williams-Bolar facing?
3. What did she miss in making her decision to use her father's address?
4. What factors would make her believe that what she did was necessary?
5. What questions did she fail to ask herself before filling in those addresses?
6. Does it matter that the Akron schools were not delivering on their promises about improving the schools?
7. Was there another way to solve the school-quality issue?

⁵Annie Lowry, "Her Only Crime Was Helping Her Kids," *The Atlantic*, September 13, 2019, <https://www.theatlantic.com/ideas/archive/2019/09/her-only-crime-was-helping-her-kid/597979/>.

An Initial Step Toward Ethical Clarity

One step that can give us greater clarity when we face ethical dilemmas is a **credo**. A credo is different from a code of ethics and does not consist of the virtues that companies usually list in a code of ethics, for example, “We are always honest; we follow the laws.” The credo demands more because it sets the parameters for those virtues. A credo is virtue in action. A credo defines you and your ethical boundaries.

You get your personal credo through introspection using two questions:

1. Who are you? Many people define themselves by their titles, the size of their offices, or the number of people who report to them. Some define themselves through the trappings of success, such as how much money they have or make, the type of cars they drive, their clothes, and all things tangible and material. A credo requires you to find a way to describe yourself in terms or qualities that are part of you, no matter what happens to you financially, professionally, or in your career. For example, one good answer to “Who are you?” might be that you are kind and fair, showing Solomon-like virtues (see p. 20) to others around you. List the qualities you value and have and could keep regardless of all the outer and tangible trappings.

Jimmy Dunne III was the only partner who survived the near destruction of his financial firm, Sandler O’Neill, when the World Trade Center collapsed on September 11, 2001. Only 17 of Sandler O’Neill’s 83 employees survived the tower’s collapse. Mr. Dunne has been tireless in raising money for the families of the employees who lost their lives that day. When asked by *Fortune* magazine why he works so hard to provide for the families of those employees, Mr. Dunne responded, “Fifteen years from now, my son will meet the son or daughter of one of our people who died that day, and I will be judged on what that kid tells my son about what Sandler O’Neill did for his family.”⁶ As of 2021, Sandler O’Neill had paid the college tuitions of 54 children (there were 71 total) of the employees who died on September 11, 2001.⁷ When asked in 2021 why he made the decision to help the children of the firm’s employees (in addition to providing health insurance for their families for five years), Mr. Dunne said, “Because we believed that what we did would echo for a hundred years in the families of our people, their kids and their grandkids. Because how we conducted ourselves in those first few hours and days would define who we really were and what we were about.”⁸

Mr. Dunne’s personal credo focuses on both the long-term reputation of his firm and the impact his choices can have on his children’s reputations.⁹

⁶Katrina Booker, “After September 11: Starting Over,” *Fortune*, September 11, 2015, <http://fortune.com/2015/09/11/september-11-sandler-oneill/>.

⁷“Bank That Lost Dozens of Employees on 9/11 Has Sent 54 of Their Kids to College,” http://www.huffingtonpost.com/entry/bank-pays-tuition-children-employees-september-11_us_55f97f83e4b0e333e54bfe95. *Huffington Post*, September 17, 2015.

⁸Aaron Lee, “Bank That Lost 66 Workers on 9/11 has Paid for All Their Kids to Go to College,” *Good News Network*, September 11, 2021, at [Lost 66 Workers on 9/11 has Paid for All Their Kids too](https://www.goodnewsnetwork.org/bank-that-lost-66-workers-on-911-has-paid-for-kids-college/), <https://www.goodnewsnetwork.org/bank-that-lost-66-workers-on-911-has-paid-for-kids-college/>.

⁹In 2020, Sandler O’Neill merged with Piper Jaffray and became Piper, Sandler, O’Neill.

2. The second part of your credo consists of answering these questions: What are the things that you would never do to get a job? To keep a job? To earn a bonus? To win a contract or gain a client? The answers to these questions result in a list, one that you should be keeping as you read the cases and study the individual businesspeople who made mistakes. Perhaps the title of your list could be “Things I Would Never Do to Be Successful,” “Things I Would Never Do to Be Promoted,” or even “Things I Would Never Do to Make Money.” One scientist reflected on the most important line that he would never cross, and after you have studied a few of the product liability cases, you will come to understand why this boundary was important to him, “I would never change the results of a study to get funding or promise anyone favorable results from my work in exchange for funding.” A worker at a refinery wrote this as his credo: “I would never compromise safety to stay on schedule or get my bonus.” An auditor in a state auditor general’s office wrote, “I would never sign a document that I know contains false information.” The credo is a list, gleaned from reading about the experiences of others, that gives us perpetual guidance even before specific ethical dilemmas arise.

Using the Credo in Decisions About Ethics

A woman who had been a lawyer for 30 years reflected on her career and realized that she had conducted her professional life in line with two admonitions a senior partner had given to her on her first day as a young associate and new hire in a law firm. The senior partner came into her office and said, “I want you to remember two things: Don’t ever lie to a client. Don’t ever lie to the FBI.” She recalled wondering most of that first day, “What kind of firm am I working for that these are the only two rules? I would never lie to a client. I would never lie to the FBI.” Within the first month of her career, she came to understand the senior partner’s wisdom, as well as the fact that she had a credo. During that first month, a client called and wondered how far along she was on his project that she had been assigned. She had not even begun the project; the file was still on her credenza, not having even made it to her desk for review. Human tendency and business practice when you are asked about a longer term project that remains a nonstarter is to want to say, “Fine. Making progress. Coming along. I have it right here. Under control.” However, because of the credo parameters, she did not want to lie to the client. She told the truth, “I have not started the project yet, but I have two clear days next week that I will set aside to really get at it—could I call you then?” The client stayed with her and the firm.

Famous Lines from Art and Literature

Polonius’s immortal advice to his son, Laertes, in Shakespeare’s *Hamlet*:

“To thine own self be true” (*Hamlet*, Act I, Scene III).

Many of us quote Polonius without really asking, “What does that mean?”

A credo puts the meat on the lofty philosophy. A credo takes us from eloquent Shakespearean advice to daily action. The credo is a personal application of the lessons in the cases. You will spot the lack of definitive lines in these case studies and begin to understand how the decision processes of those involved were flawed because the thinking was short sighted. The goal of developing your credo is to help you think more carefully, deeply, and fully about ethical issues.

She also noted that she came up short on her billable hours that first month, a problem for a new associate in a law firm who is expected to meet billable hour goals. She considered adding a few minutes here and there to clients' bills, but then reasoned, "That would be lying to a client!" She stopped herself over what might have been rationalized away as, "Oh, it's such a little thing!" She then had a government agent (not FBI) visit her to ask questions because the agent was doing a background check on a classmate who had applied for a government job. She was not a reference for the classmate. However, during the course of a national security background check, investigators ask references for names of others who may know the individual as a way of getting unscreened sources. She recalled thinking that she should paint the best picture possible about the classmate, even though she referred to him and his behavior as "sketchy" during their law school years. "Instead," she explained, "I just told the truth."

As she reflected on her decades-long career she noted, "I can't tell you how many times those two simple rules given to me that first day have saved me from mistakes." That's what a credo does for you. You no longer shift with the winds as you make ethical choices. You have set general parameters for what you will and will not do. The lawyer will not have to worry about whether she should exaggerate her experience to a new client. That would be lying to a client, and she has already made the decision not to do that. The lawyer would never withhold a settlement offer from a client because that would be lying to the client. So many decisions we cannot anticipate are made through a thoughtful credo that predefined our ethical lines.

Discussion Questions

Explain the role that "How do I want to be remembered?" plays in developing your credo. Discuss the difference between these two attempts at developing a credo:

1. I will always try to do the right thing.
2. I will never be dishonest with my spouse.

Ethics in Action 1.2

Customs Doesn't Need to Know

Granite Parts had a sales incentive program for its wholesalers located around the world. Those wholesalers who sold more than 10,000 units would win Apple's most expensive iPad. Jeremy's supervisor asked him to handle shipping out the iPads to the wholesalers who qualified, a large number that Granite had not anticipated. His supervisor instructed Jeremy, "Just describe what we're sending as the cheapest iPad Apple makes on the shipping form. That will save us import tariffs and fees." Jeremy will be required to sign the shipment form for the international carrier. The customs form has the following warning above the signature line, "You must truthfully declare the value of all goods being shipped. Undervaluation and other *Customs Act* offenses may lead to seizure and/or prosecution in a court of law and/or penalties that usually exceed the amount of duties and taxes payable for accurate declarations." Jeremy has just started his job with the company and is anxious to please his supervisor.

1. Provide Jeremy with some advice using examples of a credo.
2. What would you have done in Jeremy's circumstances?