

Chapter 1

Ethics in the World of Business

Chapter Summary

Business ethics is concerned with identifying and understanding the ethical issues that arise in business, along with the development of knowledge and skills needed by a practicing manager to address these issues and to make sound business decisions. Ethical issues are an inevitable element of business decision making, and they are deeply intertwined with managerial practice and economic activity in general. The success of individual managers, business organizations, and the whole economic system depend upon sound ethical decision making. Although economics and law are important guides for business decision making, they are not entirely sufficient. Organizational research conducted by psychologists and sociologists further show that the treatment of business ethics from a purely philosophical perspective is likewise an insufficient approach. Organizational misconduct is often the result of flaws in individual and organizational decision making that can be corrected only by changing the overall decision making process. Practicing managers can promote an ethical organizational culture by actively discouraging misconduct and rewarding ethical decision making and conduct.

CHAPTER OBJECTIVES

- 1.1: Identify ethical issues created by diverse business situations and relationships and the level of decision making required to address them
- 1.2: Recognize the role of ethics in the conduct of business, with respect to economic principles and the law
- 1.3: Distinguish between ethical management and the management of ethics, and each of the three main roles of a manager
- 1.4: Analyze how ethical business conduct is challenged by decision making on individual and organizational levels

SUGGESTED DISCUSSION PROMPTS

1. What types of ethical concerns do decision-makers at the management level need to take into account?
2. What types of ethical concerns do decision-makers at lower organizational levels need to take into account?
3. How would you respond to someone who says that a business should always do whatever is in its economic interests?
4. What is wrong with the thought that abiding by the law is all the ethics that a businessperson needs to worry about?
5. How does specialized knowledge come into play in the management of ethics?

ASSESSMENT FOR IN-CLASS USE

Multiple Choice Questions

Choose the BEST possible answer for each of the following.

1. In many cases, rules of business ethics can be determined by _____ .
 - A. applicable laws
 - B. company guidelines
 - C. economic requirements
 - D. rules of conduct that apply in everyday life

Correct Answer: D

1.1: Identify ethical issues created by diverse business situations and relationships and the level of decision making required to address them

Topic/Concept: Business Decision Making

Difficulty Level: Easy

Skill Level: Understanding

2. The economic character of business can be seen in its _____ .
 - A. trading characteristics
 - B. ethical dimensions
 - C. personal aspects
 - D. legal guidelines

Correct Answer: A

1.1: Identify ethical issues created by diverse business situations and relationships and the level of decision making required to address them

Topic/Concept: Business Decision Making

Difficulty Level: Easy

Skill Level: Understanding

3. Organization in business is characterized mainly by its _____ .
 - A. rules
 - B. hierarchy
 - C. profits
 - D. products

Correct Answer: B

1.1: Identify ethical issues created by diverse business situations and relationships and the level of decision making required to address them

Topic/Concept: Business Decision Making

Difficulty Level: Easy
Skill Level: Understanding

4. Decision making in business occurs at various distinctive _____ .
- A. places
 - B. levels
 - C. objectives
 - D. profits

Correct Answer: B

1.1: Identify ethical issues created by diverse business situations and relationships and the level of decision making required to address them

Topic/Concept: Business Decision Making

Difficulty Level: Easy

Skill Level: Understanding

5. If a business manager decides to proceed with a course of action although the manager has information that suggests the need to rethink the decision, the manager is being influenced by
- A. anchor heuristic
 - B. confirmation bias
 - C. sunk cost bias
 - D. adjustment heuristic

Correct Answer: C

1.4: Analyze how ethical business conduct is challenged by decision making on individual and organizational levels

Topic/Concept: Ethics in Organizations

Difficulty Level: Moderate

Skill Level: Application

6. Economic reasoning describes how we _____ .
- A. ought to reason
 - B. prioritize our desires
 - C. reason when pursuing our goals
 - D. would reason if we could have whatever we wanted

Correct Answer: C

1.2: Recognize the role of ethics in the conduct of business, with respect to economic principles and the law

Topic/Concept: Ethics, Economics, and Law

Difficulty Level: Easy

Skill Level: Understanding

7. Adam Smith's economic theory is based on which of the following assumptions?
- A. People want to promote each others' interests.
 - B. Morality is not relevant to economic concerns.
 - C. Free markets will fix their own ethical problems.
 - D. People will behave rationally as they pursue their interests.

Correct Answer: D

1.2: Recognize the role of ethics in the conduct of business, with respect to economic principles and the law

Topic/Concept: Ethics, Economics, and Law

Difficulty Level: Moderate

Skill Level: Analysis

8. What fact does the "ultimatum bargaining game" demonstrate?
- A. It is often rational to price products below their market value.
 - B. Free markets will usually self-regulate.
 - C. Many people do not understand economics.
 - D. Many people would rather not trade than be treated unfairly.

Correct Answer: D

1.2: Recognize the role of ethics in the conduct of business, with respect to economic principles and the law

Topic/Concept: Ethics, Economics, and Law

Difficulty Level: Moderate

Skill Level: Analysis

9. The school of thought that says that law and ethics govern two different realms is wrong because _____
- A. ethics applies to every field of life
 - B. anything that is legal is also ethical
 - C. anything that is illegal is also unethical
 - D. the law governs every aspect of life

Correct Answer: A

1.2: Recognize the role of ethics in the conduct of business, with respect to economic principles and the law

Topic/Concept: Ethics, Economics, and Law

Difficulty Level: Easy

Skill Level: Understanding

10. It is not ethically sufficient to obey the law because _____
- A. the law does not apply to business in general
 - B. ethical constraints sometimes require that the law be ignored
 - C. ethics goes beyond what can be legally codified

D. the law itself is stricter than ethics

Correct Answer: C

1.2: Recognize the role of ethics in the conduct of business, with respect to economic principles and the law

Topic/Concept: Ethics, Economics, and Law

Difficulty Level: Moderate

Skill Level: Application

Essay Questions

1. Identify two dangers of rationalization which can lead an individual to make unethical decisions.

1.4: Analyze how ethical business conduct is challenged by decision making on individual and organizational levels

Topic/Concept: Ethics in Organizations

Difficulty Level: Moderate

Skill Level: Analysis

2. Describe and explain an example of a business decision that would be unethical even though it is legal.

1.2: Recognize the role of ethics in the conduct of business, with respect to economic principles and the law

Topic/Concept: Ethics, Economics, and Law

Difficulty Level: Moderate

Skill Level: Analysis

3. Examine one way in which a manager's role (job obligations) may conflict with his or her moral obligations.

1.3: Distinguish between ethical management and the management of ethics, and each of the three main roles of a manager

Topic/Concept: Ethics and Management

Difficulty Level: Moderate

Skill Level: Analysis

4. What is wrong with the thought that abiding by the law is all the ethics that a businessperson needs to worry about?

1.2: Recognize the role of ethics in the conduct of business, with respect to economic principles and the law

Topic/Concept: Ethics, Economics, and Law

Difficulty Level: Moderate
Skill Level: Evaluation

5. How does specialized knowledge come into play in the management of ethics?

1.3: Distinguish between ethical management and the management of ethics, and each of the three main roles of a manager

Topic/Concept: Ethics and Management

Difficulty Level: Moderate

Skill Level: Analysis