

Business

E·T·H·I·C·S

*Ethical Decision Making
and Cases*

Third Edition

FERRELL & FRAEDRICH

BUSINESS ETHICS

***Ethical Decision Making
and Cases*** **THIRD EDITION**

O. C. Ferrell

*University of Tampa
University of Memphis*

John Fraedrich

Southern Illinois University at Carbondale

Sponsoring Editor: Jennifer B. Speer
Senior Associate Editor: Susan M. Kahn
Assistant Editor: Yuka Sugiura
Managing Editor: Nancy Doherty-Schmitt
Senior Production/Design Coordinator: Sarah Ambrose
Associate Project Editor: Gabrielle Stone
Editorial Assistant: Christian Zabriskie
Senior Manufacturing Coordinator: Priscilla Bailey
Marketing Manager: Michael B. Mercier

Cover Designer: Peter Blaiwas

Copyright © 1997 by Houghton Mifflin Company. All rights reserved.

No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, or by any information storage or retrieval system without the prior written permission of Houghton Mifflin Company unless such copying is expressly permitted by federal copyright law. Address inquiries to College Permissions, Houghton Mifflin Company, 222 Berkeley Street, Boston, MA 02116-3764.

Printed in the U.S.A.

Library of Congress Catalog Card Number: 96-76899

Student Book ISBN: 0-395-79084-0

Examination Copy ISBN: 0-395-79085-9

123456789-CS-00 99 98 97 96

Preface

The headlines in your local newspapers, *USA Today*, *The Wall Street Journal*, or *Business Week* tell you that business ethics is becoming one of the most important concerns in business. A scandalous government investigation or a lawsuit by investors, employees, or customers is reported daily. Many of these events stem from ethical misconduct, resulting from the failure of a company to incorporate ethical compliance into its organizational policies. Many of these ethical concerns evolve into legal problems for the company and destroy its organizational trust with the public and other stakeholders.

The business of helping organizations improve their ethics is growing rapidly. The catalyst has been the implementation of the Federal Sentencing Guidelines for Organizations by the United States Sentencing Commission. The guidelines, approved by Congress in November 1991, broke new ground by providing incentives for organizations that develop ethical compliance programs to prevent misconduct. The goal of the guidelines is to encourage organizations to take action to prevent business misconduct and to be “good citizen corporations.” The business of helping implement business ethics programs is a billion dollar industry, with firms such as KPMG Peat Marwick, Arthur Andersen and Co., and many small consulting firms developing organizational ethics programs for companies. Large corporations are hiring ethics officers who report directly to the president and who provide oversight for ethics policies and training.

GOALS OF THIS TEXT

Personal ethics is important but may not be sufficient to handle ethical decision making in a business organization. Personal values that an individual learns through socialization may not provide specific guidelines for complex business decisions. Just deciding what constitutes an ethical issue is often difficult. What is deceptive advertising? What actions could be defined as price fixing by competitors or by the Department of Justice? When should an

accountant report inaccuracies discovered in an audit? The purpose of this book is to help you improve your ability to make ethical decisions in business by providing you with a framework that you can use to identify, analyze, and control ethical issues in business decision making. Your own values and ethics are important in this process.

For our purposes, and in simple terms, we define business ethics as comprising moral principles that guide behavior in the world of business. We recognize that many people use the terms “business ethics” and “social responsibility” interchangeably, although each can be viewed from a different perspective. We view social responsibility as an attempt to maximize positive effects and minimize negative effects on society. By studying business ethics and social responsibility you begin to understand how to cope with conflicts between your own personal values and those of the organization in which you work.

Many ethical decisions in business are close calls. It often takes years of experience in a particular industry to know what is acceptable. We do not, in this book, provide ethical answers but instead attempt to prepare you to make informed ethical decisions. First, we do not moralize by telling you what to do in a specific situation. Second, although we provide an overview of moral philosophies and decision-making processes, we do not prescribe any one philosophy or process as best or most ethical. Third, by itself, this book will not make you more ethical nor will it tell you how to judge the ethical behavior of others. Rather, its goal is to help you understand and use your current values and convictions in making business decisions and to encourage you to think about the effects of your decision on business and society.

Many people believe that business ethics cannot be taught. Although we do not claim to teach ethics, we suggest that by studying business ethics a person can improve ethical decision making by identifying ethical issues and recognizing the approaches available to resolve them.

It is important to recognize the relationship between personal morals and ethical business decisions. Whereas abstract virtues linked to the high moral ground of truthfulness, honesty, fairness, and openness are often assumed to be self-evident and easy to apply, business decisions involve complex managerial and social considerations. Some business ethics perspectives assume that ethics training is for people who have unacceptable personal moral development, but that is not necessarily the case. Since organizations are culturally diverse and personal values must be respected, a collective agreement on organizational ethics (that is, codes reasonably capable of preventing misconduct) is as vital as other managerial decisions.

ORGANIZATION OF THE TEXT

In writing *Business Ethics, third edition*, we have strived to be as informative, complete, accessible, and up-to-date as possible. Instead of focusing on one

area of ethics such as moral philosophy or codes of ethics, we provide balanced coverage of all areas relevant to the current development and practice of ethical decision making. In short, we have tried to keep pace with new developments and current thinking in teaching and practices.

Part One, "Understanding Ethical Decision Making," consists of 10 chapters. The purpose of these chapters is to provide you with a framework to identify, analyze, and understand how business people make ethical decisions and deal with ethical issues. Several enhancements have been made to chapter content for this edition. Some of the most important are listed here. Chapter 1 has been revised to introduce important changes in the institutionalization of business ethics in society. The "Development of Business Ethics" section includes important changes that provide incentives for ethical compliance programs. Chapter 3, "Applying Moral Philosophies to Business Ethics," has expanded coverage of the relativist perspective and of virtue ethics. "The Legal Dimension" section of Chapter 4, "Social Responsibility," now contains a detailed overview of the Federal Sentencing Guidelines for Organizations. Chapter 5, "An Ethical Decision-Making Framework," has been completely revised to reflect the most recent findings regarding ethical decision making in organizations. A new section on ethical issue intensity is included in the revised decision-making model. Expanded material on interpersonal relationships in the organization is included in Chapter 7, "The Influence of Significant Others in the Organization." Chapter 9, "Development of an Effective Ethics Program," has been completely revised and contains a framework for developing an effective ethical compliance program that is compatible with the recommendations of the Federal Sentencing Guidelines for Organizations. Chapter 10, "International Business Ethics," has been completely rewritten to reflect the increasing dynamics of the area. New topics include cultural relativism, the possibility of universal international ethics, and new business issues in international business ethics.

Part Two consists of 15 cases that bring reality into the learning process. All of the cases have been written or revised specifically for this text. The companies or situations are real, names or facts have not been disguised, and all cases include developments up to June 1996. By reading and analyzing these cases, you can gain insight into ethical issues and decision making.

Three appendixes provide further real-world examples and practice in identifying and weighing ethical issues. These appendixes include association, industry, and company codes of ethics. They also include an ethics game, developed by Lockheed Martin Corporation, that more than 100 companies use to train their employees.

EFFECTIVE TOOLS FOR TEACHING AND LEARNING

Many tools are available in this text to help both students and instructors in the quest to improve students' ability to make ethical business decisions.

Each chapter opens with an outline. Immediately following the outline is an “Ethical Dilemma” section that gets students thinking about ethical issues related to the chapter. The short vignette describes a hypothetical incident involving an ethical conflict. Questions at the end of the “Ethical Dilemma” section focus discussion on how the dilemma could be resolved. At the end of each chapter there is a chapter summary and an important terms list, both of which are handy tools for review. Also included at the end of each chapter is a “Real-Life Situation” section. The vignette describes a realistic drama that helps students experience the process of ethical decision making. The “Real-Life Situation” minicases presented in this text are hypothetical; any resemblance to real people, companies, or situations is coincidental. Keep in mind that there are no right or wrong solutions to the minicases. The dilemmas and real-life situations provide an opportunity for the student to use concepts in the chapter to resolve ethical issues. Following each real-world case in Part Two are questions to guide students in recognizing and resolving ethical issues. For some cases, students could conduct additional research to determine recent developments, since many ethical issues in companies take years to resolve. Students can study the codes of ethics in appendixes A and B to determine ethical issues that companies attempt to control. Finally, appendix C, “Gray Matters,” which is new to this edition, describes nine business situations. Working independently or in groups, students can practice making ethical decisions—an exercise that is sure to lead to lively discussions.

The *Instructor’s Resource Manual with Test Bank* contains a wealth of information. Teaching notes for every chapter include a brief chapter summary, detailed lecture outline, and notes for using the “Ethical Dilemma” and “Real-Life Situation.” Detailed case notes point out the key issues involved and offer suggested answers to the questions. A separate section provides guidelines for using case analysis in teaching business ethics, and it provides three additional cases that can be discussed in class or used for outside assignment or examination purposes. Detailed notes are provided to guide the instructor in analyzing or grading the cases. Teaching notes with suggested scoring guidelines for the “Gray Matters” exercises in appendix C are also provided. A test bank provides multiple-choice and essay questions for every chapter in the text. Finally, a video guide provides detailed information and teaching suggestions to assist instructors in smoothly integrating the use of the videos in their course. The videocassette contains four video segments on business ethics: “A Living Legacy” by the Hershey Foods Corporation (21:12 min.); “The History of Dayton’s” by the Dayton Hudson Corporation (35:43 min.); “Tobacco Advertising” by the American Heart Association (9:17 min.); and “Ethics: Good People Finish First” by the Martin Marietta Corporation (15:22 min).

ACKNOWLEDGMENTS

A number of individuals provided reviews and suggestions that helped to improve this text. We sincerely appreciate their time and effort.

Greg Buntz University of the Pacific	Nick Lockard Texas Lutheran College
Peggy Cunningham Queen's University	Terry Loe University of Memphis
Joseph M. Foster Indiana Vocational Technical College—Evansville	Nick Maddox Stetson University
Terry Gable University of Memphis	Phylis Mansfield University of Memphis
Robert Giacalone University of Richmond	Randy McLeod Harding University
Suresh Gopalan West Texas A&M University	Carol Nielsen Bemidji State University
Charles E. Harris Jr. Texas A&M University	Cynthia A. M. Simerly Lakeland Community College
Kenneth A. Heischmidt Southeast Missouri State University	Debbie Thorne University of Tampa
Walter Hill Green River Community College	Wanda V. Turner Ferris State College
Jack Hires Valparaiso University	Jim Weber Marquette University
David Jacobs American University	Ed Weiss National-Louis University

The authors wish to acknowledge the many people who assisted us in writing this book. We are deeply grateful to Barbara Gilmer for helping us organize and manage the production process. Debbie Thorne, University of Tampa, provided advice and guidance on the text and cases. Margaret "Peggy" Cunningham, Queen's University, provided helpful advice and support. We offer special thanks to Gwyneth M. Vaughn, who assisted in developing case content and who played a major role in editing and developing the chapter content. Phylis Mansfield and Terry Gable, University of Memphis, contributed cases to this edition. In addition, Dawn Yoshizumi and Tanuja Srivastava provided assistance in the preparation of the cases. Finally, we express appreciation to the administration and to our colleagues at

the University of Tampa, the University of Memphis, and Southern Illinois University at Carbondale for their support.

We invite your comments, questions, or criticisms. We want to do our best to provide teaching materials that enhance the study of business ethics. Your suggestions will be sincerely appreciated.

O.C.F.
J.F.

This book is dedicated to:
Linda

O.C.F.

Debbie and my children
Anna, Jacob, Joshua and Lael.

J.F.

Contents

PART ONE UNDERSTANDING ETHICAL DECISION MAKING

1

1 An Overview of Business Ethics 3

Chapter Outline 3

An Ethical Dilemma 4

Questions 4

Business Ethics Defined 5

Social Responsibility and Business Ethics 6

The Development of Business Ethics 7

Before 1960: Ethics in Business 7

The 1960s: The Rise of Social Issues in Business 8

The 1970s: Business Ethics As an Emerging Field 8

The 1980s: Consolidation 9

The 1990s: Institutionalization of Business Ethics 10

Why Study Business Ethics? 11

The Problem 11

The Solution 12

Our Framework for Studying Business Ethics 15

Ethical Issues in Business 16

Applying Moral Philosophies to Business Ethics 17

Social Responsibility 17

An Ethical Decision-Making Framework 18

How the Organization Influences Ethical Decision Making 18

The Influence of Significant Others in the Organization 18

The Role of Opportunity and Conflict 19

Development of an Effective Ethics Program 19

International Business Ethics 19

Summary 20

A Real-Life Situation 21

Questions 22

Important Terms for Review 23

2 Ethical Issues in Business 24

Chapter Outline 24

An Ethical Dilemma 25

Questions 25

Foundations of Ethical Conflict 27

Classification of Ethical Issues 30

Conflict of Interest 30

Honesty and Fairness 31

Communications 33

Organizational Relationships 35

Ethical Issues Related to Participants and Functional

Areas of Business 36

Owners 36

Finance 37

Employees 38

Management 40

Consumers 42

Marketing 43

Accounting 44

Recognizing an Ethical Issue 45

Summary 46

A Real-Life Situation 47

Questions 48

Important Terms for Review 48

3 Applying Moral Philosophies to Business Ethics 49

Chapter Outline 49

An Ethical Dilemma 50

Questions 51

Moral Philosophy Defined 51

Moral Philosophy Perspectives 52

Teleology 53

Deontology 57

The Relativist Perspective 59

Virtue Ethics 60

Summary	61
<i>A Real-Life Situation</i>	62
Questions	63
Important Terms for Review	64
4 Social Responsibility	65
<i>Chapter Outline</i>	65
<i>An Ethical Dilemma</i>	66
Questions	67
The Economic Dimension	69
The Economy	69
Competition	71
The Legal Dimension	72
Laws Regulating Competition	75
Laws Protecting Consumers	76
Laws Protecting the Environment	77
Laws Promoting Equity and Safety	79
Incentives for Compliance: Federal Sentencing Guidelines for Organizations	81
The Ethical Dimension	82
Ethics as a Force in Social Responsibility	83
Organizational Direction for Ethics and Social Responsibility	85
The Philanthropic Dimension	86
Quality-of-Life Issues	86
Philanthropic Issues	87
Summary	89
<i>A Real-Life Situation</i>	90
Questions	91
Important Terms for Review	91
5 An Ethical Decision-Making Framework	92
<i>Chapter Outline</i>	92
<i>An Ethical Dilemma</i>	93
Questions	93
Ethical Issue Intensity	95
Individual Factors: Stages of Cognitive Moral Development	96
Corporate Culture	100
Significant Others	101
Opportunity	103
Business Ethics Evaluations and Intentions	105

**Using the Ethical Decision-Making Framework
to Improve Ethical Decisions 105**

Summary 106

A Real-Life Situation 108

Questions 109

Important Terms for Review 109

***6 How the Organization Influences Ethical
Decision Making 110***

Chapter Outline 110

An Ethical Dilemma 111

Questions 111

Organizational Structure and Business Ethics 112

Centralized Organizations 112

Decentralized Organizations 114

The Role of Corporate Culture in Ethical Decision Making 115

Ethics as a Component of Corporate Culture 117

Ethical Framework and Audit for Corporate Culture 118

Group Dimensions of Organizational Structure and Culture 120

Types of Groups 120

Formal Groups 122

Informal Groups 124

Group Norms 125

Implications of Organizational Relationships for Ethical Decisions 126

Perceived Ethicalness of the Work Group Affects Ethical Decisions 126

Can People Control Their Own Ethical Actions Within an Organization? 127

Summary 129

A Real-Life Situation 130

Questions 131

Important Terms for Review 131

7 The Influence of Significant Others in the Organization 132

Chapter Outline 132

An Ethical Dilemma 133

Questions 133

Interpersonal Relationships in Organizations 134

Variation in Employee Conduct 135

Role Relationships 137

Differential Association 140

Organizational Pressures and Significant Others 141

Leadership	143
Motivation	144
Power	145
Significant Others and Ethical Behavior in Business	148
Summary	149
<i>A Real-Life Situation</i>	<i>151</i>
Questions	153
Important Terms for Review	153
8 The Role of Opportunity and Conflict	154
<i>Chapter Outline</i>	<i>154</i>
<i>An Ethical Dilemma</i>	<i>155</i>
Questions	156
Opportunity	157
Knowledge	159
Individual Status	159
Conflict	160
Personal-Organizational Conflict	160
Personal-Societal Conflict	162
Organizational-Societal Conflict	163
A Final Note on Opportunity and Conflict	166
Summary	166
<i>A Real-Life Situation</i>	<i>168</i>
Questions	169
Important Terms for Review	169
9 Development of an Effective Ethics Program	170
<i>Chapter Outline</i>	<i>170</i>
<i>An Ethical Dilemma</i>	<i>171</i>
Questions	171
An Effective Ethical Compliance Program	173
Codes of Ethics and Compliance Standards	175
Texas Instruments' Code of Ethics	176
High-Level Manager's Responsibility for Ethical Compliance Programs and the Delegation of Authority	178
Effective Communication of Ethical Standards	179
Establishing Systems to Monitor, Audit, and Enforce Ethical Standards	181
Continuous Improvement of the Ethical Compliance Program	182
The Influence of Personal Values in Business Ethics Programs	183

The Ethical Compliance Audit 185

Summary 187

A Real-Life Situation 189

Questions 190

Important Terms for Review 190

10 International Business Ethics 191

Chapter Outline 191

An Ethical Dilemma 192

Questions 193

Ethical Perceptions and International Business 194

Culture As a Factor in Business 194

Adapting Ethical Systems to a Global Framework: Cultural Relativism 197

The Multinational Corporation 198

A Universal Set of Ethics 201

Ethical Issues Around the Globe 206

Sexual and Racial Discrimination 206

Price Discrimination 207

Bribery 209

Harmful Products 210

The Foreign Corrupt Practices Act 212

Telecommunications 213

Summary 214

A Real-Life Situation 216

Questions 217

Important Terms for Review 218

PART TWO CASES

219

Case 1 Hershey Food's Ethics and Social Responsibility 221

Case 2 R.E.M. Versus Hershey Foods Corporation Resolve a Conflict 225

Case 3 Dow Corning's Breast Implants 231

Case 4	<i>SPAM Versus Muppets</i>	237
Case 5	<i>Lincoln Savings and Loan: Symbol of the U.S. Saving and Loan Crisis</i>	243
Case 6	<i>Sexual Harassment in the Workplace</i>	249
Case 7	<i>Love Canal Revisited</i>	255
Case 8	<i>The Old Joe Camel Controversy: A Case of Commercial Free Speech</i>	261
Case 9	<i>The Fall of Michael Milken</i>	267
Case 10	<i>Ben & Jerry's Homemade Balances Social Responsibility and Growth</i>	275
Case 11	<i>The Wreck of the Exxon Valdez</i>	280
Case 12	<i>Ethics Training at WMX Technologies, Inc.</i>	290
Case 13	<i>Crazy Eddie, Ethics, and the Law</i>	295
Case 14	<i>The Fall of Kidder, Peabody</i>	299
Case 15	<i>Archer Daniels Midland Company</i>	304
Appendix A	<i>Association and Industry Codes of Ethics</i>	313
Appendix B	<i>Company Codes of Ethics</i>	327
Appendix C	<i>Gray Matters</i>	334
Endnotes		337
Index		350