

# Business Ethics Now

GHILLYER

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Employee  
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**The Social Contract Approach  
to Management and Your  
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**"Comply or Else": Good  
For Your Business?** P. 87



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# BusinessEthicsNow

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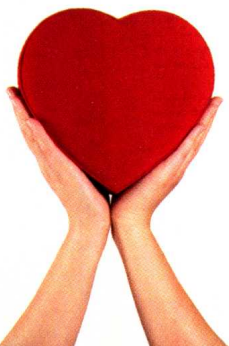
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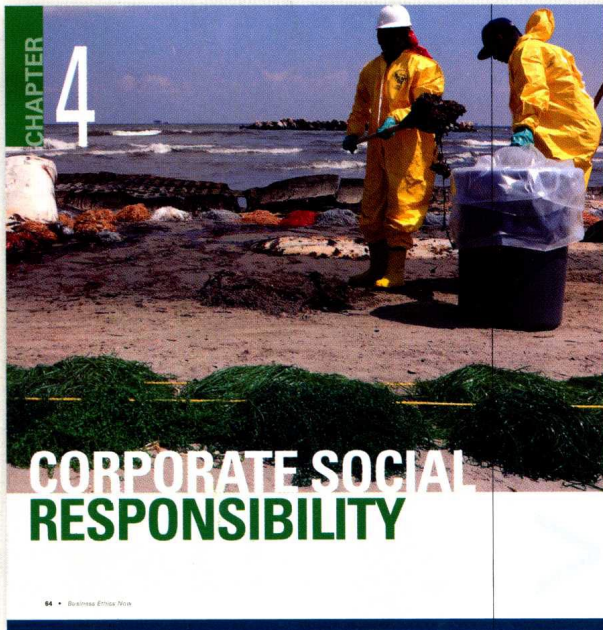


## **Dedication**

To my father, Norman Ghillyer

# Welcome to Business Ethics Now

Unlike most ethics textbooks, **Business Ethics Now** is written for the employee facing daily ethical dilemmas, rather than for the managers seeking to verbalize a corporate ethics policy. By examining issues and scenarios that relate directly to the workplace, employees and future employees can develop a clearer sense of how their corporate code of ethics relates to operational decisions that are made every day. In this new edition, cutting-edge cases are examined, including the BP oil spill and WikiLeaks.



**LEARNING OUTCOMES**

After studying this chapter, you should be able to:

1. Describe and explain corporate social responsibility (CSR).
2. Distinguish between instrumental and social contract approaches to CSR.
3. Explain the business argument for "doing well by doing good."
4. Summarize the five driving forces behind CSR.
5. Explain the triple bottom-line approach to corporate performance measurement.
6. Discuss the relative merits of carbon-offset credits.

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**FRONTLINE FOCUS**  
A Stocking Error

Jennifer Pierce is a management trainee at MegaDrug, a national retail pharmacy. She has only been there a month, which the store manager, Tony Hodge, seems to think requires that she must still learn every task from the ground up. So today, Jennifer is developing her management skills by restocking some shelves in the allergy section.

Jennifer doesn't really mind. She knows that when she's running her own store, she'll have to stock shelves on some days, especially if someone calls in sick, so it's good practice—plus, she gets to help customers who are looking for items, and that's usually very grateful for your help.

As she's stocking the shelves, Jennifer notices that the quantities of name-brand allergy medicines are much smaller than the company's own-label brand. She immediately brings it to Tony's attention, fully expecting him to tell her to put out more of the name brands to balance the shelves equally.

However, Tony's response catches Jennifer by surprise.

"Oh, really? There must have been a stocking error in the storeroom—somebody didn't fill the order requisition correctly," said Tony. "The good news is, the company makes a lot more money on our own-label brand, so maybe running out of the name brands will encourage customers to give us a try."

"Not to worry," he continued. "I'd rather have one or two customers complain about an unavailable item than lose profitable sales of our house brand. Leave the shelf stocked as it is."

**QUESTIONS**

1. MegaDrug advertises that it is a socially responsible organization that puts its stakeholders first. Is Tony being ethically responsible to his customers here? Read the definition of ethical corporate social responsibility (CSR) on page 66 for more details.
2. Tony would rather have one or two customers complain about an unavailable item than lose profitable sales of MegaDrug's own brand. Is denying customers a choice of products a valid solution?
3. What should Jennifer do now?

Years ago William Jenning described big business as a collection of organized crime.

—Denial Patrick Moynihan

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Learning Outcomes are tied directly to the content and help students better understand what they will be studying.

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**THE OVERCROWDED LIFEBOAT**

In 1842, a ship struck an iceberg, and more than 30 survivors were crowded into a lifeboat intended to hold 7. As a storm threatened, it became obvious that the lifeboat would have to be lightened if anyone were to survive. The captain reasoned that the right thing to do in this situation was to force some individuals to go over the side and drown. Such an action, he reasoned, was not unjust to those thrown overboard, for they would have drowned anyway. If he did nothing, however, he would be responsible for the deaths of those whom he could have saved. Some people opposed the captain's decision. They claimed that if nothing were done and everyone died as a result, no one would be responsible for these deaths. On the other hand, if the captain attempted to save some, he could do so only by killing others and their deaths would be his responsibility; this would be worse than doing nothing and letting all die. The captain rejected this reasoning. Since the only possibility for rescue required great efforts of rowing, the captain decided that the weakest would have to be sacrificed. In this situation it would be absurd, he thought, to decide by drawing lots who should be thrown overboard. As it turned out, after days of hard rowing, the survivors were rescued and the captain was tried for his action.

**QUESTIONS**

1. Did the captain make the right decision? Why or why not?
2. What other choices could the captain have made?

**← ETHICAL**      **DILEMMA →**

3. If you had been on the jury, how would you have decided? Why?

4. Which ethical theory or theories could be applied here?

Source: Adapted from www.friesian.com/valley/dilemmas.htm.

FrontLine Focus presents hypothetical scenarios in which frontline employees are faced with ethical dilemmas. An issue is described at the beginning of each chapter, and the solution is at the end, after the student has read the related text material.

Ethical Dilemmas discuss real-life cases of the material being reviewed.

## >> Making tough choices

What happens when your personal values appear to directly conflict with those of your employer? Three options are open to you: (1) Leave and find another job (not as easy as it sounds); (2) keep your head down, do what you have been asked to do, and hold onto the job; and (3) talk to someone in the company about how uncomfortable the situation is making you feel and see if you can change things. All three options represent a tough choice that you may face at some point in your career. The factors that you will have to consider in making that choice will also change as you move through your working life. Making a job change on the basis of an ethical principle may seem much less challenging to a single person with fewer responsibilities than to a midlevel manager with a family and greater financial obligations.

The important point to remember here is that while an ethical dilemma may put you in a tough situation in the present, the consequences of the choice you make may remain with you far into the future. For that reason, make the choice as objectively and unemotionally as you can. Use the checklists and other tools that are available to you in this book to work through the exact nature of the issue so that you can resolve it in a manner that you can live with.



<< **Life Skills** apply ethical concepts to scenarios that might affect students in their professional, personal, and academic lives.

## PROGRESS ✓ QUESTIONS

1. Explain the term *business ethics*.
2. Explain the difference between a descriptive and prescriptive approach to business ethics.
3. Identify six stakeholders of an organization.
4. Give four examples of how stakeholders could be negatively impacted by unethical corporate behavior.

^ **Progress Check Questions** provide assessments of comprehension throughout each chapter.

ONE AND THE SAME

## Real World Applications

You are a sales executive for a national equipment manufacturer. You joined the company straight out of college and have always been proud to work for the organization. Lately, however, you have become increasingly concerned about the office politics that have been going on at the corporate headquarters. Several senior executives have left, some very suddenly, and a lot of the changes can be traced back to the appointment of the CEO, Guy Ashley. Yesterday it was announced that Jack Lamborn, the chairman of the company (and the grandson of the founder) would be retiring at the end of the month (only two weeks away). The e-mail announcement also clarified that Guy Ashley would be assuming the position of chairman in addition to his role as CEO. You think back to your college ethics course and wonder whether this is really a good thing for the company as a whole. Would combining both roles raise any concerns for stakeholders over effective corporate governance? Why or why not?



<< **Real World Applications** prompt students to reflect further on workplace dilemmas.

## Thinking Critically

5.3

### >> HEALTHSOUTH

HealthSouth is America's largest provider of outpatient surgery and rehabilitation services. It owns or operates over 1,800 facilities across the country and serves 70 percent of the rehabilitation market. It was founded in 1984 by Richard Scrusby, a former respiratory therapist who believed that efficient one-stop shopping could be applied to the health care industry. From the time it went public in 1986, the Birmingham, Alabama, firm exceeded Wall Street expectations, a pattern that would continue for the next 15 years. In 1992 Scrusby aggressively began to acquire other clinics, and HealthSouth stock soared 31 percent annually between 1987 and 1997.

Scrusby cut a charismatic figure: the headquarters housed a museum dedicated to his achievements. He flew his own jet, mingled with celebrities, and sang with a band. For his third wedding in 1997 he chartered a plane to fly 150 guests to Jamaica. His workers knew him as King Richard.

His management style impressed many analysts. *Fortune* magazine described him in 1999 as executing his ideas brilliantly and said he was a taskmaster and a micromanager. Scrusby honed his technique, centralizing every piece of data imaginable. Every Friday a stack of printouts detailing the performance of each facility landed on his desk; when any one of them had a problem, Scrusby pounced. HealthSouth managed everything out of Birmingham: construction, purchasing, billing, even personnel. While this kind of top-down management may sound impossibly bureaucratic, Scrusby's troops made it work efficiently. Needed supplies and authorizations arrived within 30 days. Administrators who couldn't hit budget targets were fired. Says Scrusby, "We can call 'em and tell 'em, 'Jump through hoops! Stand on your head!'"

However, behind the scenes was a pattern of institutionalized fraud. By the third quarter of 2002, the \$8 billion company had overstated its assets by \$800 million. According to testimony, the fraud began shortly after the company went public when Scrusby wanted to impress Wall Street. If the results were not what he expected, Scrusby would allegedly tell his staff to "fix it." They would then convene in what came to be known as a "family meeting" to adjust the figures, a process they called "filling the gap." The internal accountants kept two sets of books—one with the true figures and one that they presented to the outside world.

HealthSouth was able to keep up the deception in a number of ingenious ways that systematically fooled outside auditors. One scheme involved what are known as contractual adjustments. Sometimes the government or insurer would not fully reimburse a facility for the amount charged to a patient. This amount would be subtracted from gross revenues. In typical double-entry accounting, any loss of revenue has to be balanced by an increase in liabilities. HealthSouth simply failed to enter the liability amount. Its accountants also posted regular expenses as long-term capital expenditures and billed group therapies as single-person sessions. They routinely inflated the value of their assets. The practices were pervasive but individually so small that they rarely met the threshold levels that would trigger review by an outside auditor. The inside accountants were careful to make sure the adjustments were uneven and dispersed around the country so they appeared realistic.

Five HealthSouth accounting employees have been convicted of fraud. Four did not receive prison sentences, though. Their lawyers argued that they were obeying orders, subject to constant intimidation, and relatively low on the organizational chart. The judge declared at sentencing that although three held the rank of vice president, "These four were essentially data entry clerks, regardless of their job titles."

Scrusby was fired by the board on March 31, 2003. On November 4, 2003, Scrusby was indicted for securities fraud, money laundering, and other charges. He had maintained throughout that he was unaware of the illegal accounting practices. He was secretly recorded saying that he was worried about signing "fixed up" financials.

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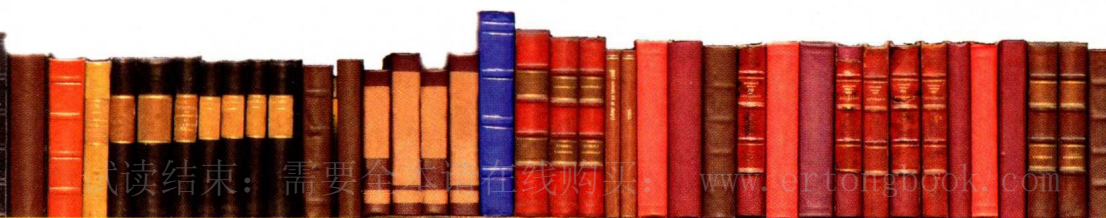


>> **Thinking Critically** exercises appear at the end of every chapter. These detailed case studies, featuring well-known companies, present ethical situations that encourage students to focus on the impact of decisions they may face someday.

About the

# AUTHOR

**Dr. Andrew Ghillyer** is an Associate Professor at Argosy University in Tampa, Florida. His operational management experience spans over 30 years across a wide range of industries, including Chief Operating Officer (COO) of a civil engineering software company and Director of International Business Relations for a global training organization. Dr. Ghillyer is a Certified Compliance and Ethics Professional (CCEP), and he also served on the Board of Examiners for the Malcolm Baldrige National Quality Award for the 2007 award year. He received his doctorate in Management Studies from the University of Surrey in the United Kingdom. His first McGraw-Hill textbook, *Business Ethics: A Real World Approach*, was published in January 2007.

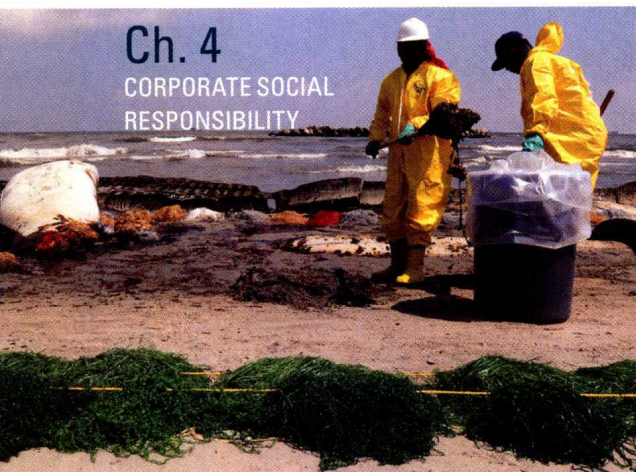




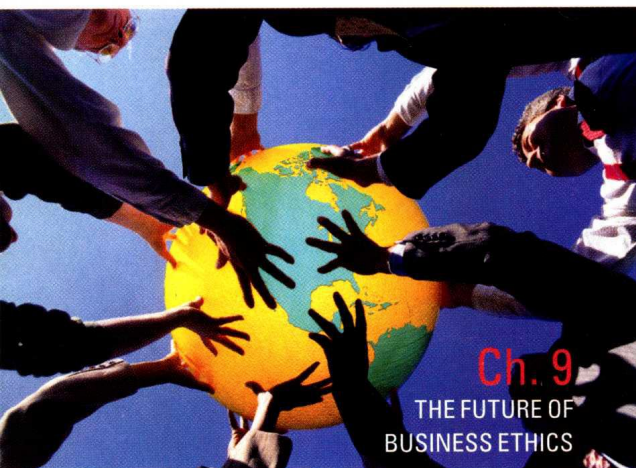
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**Ch. 3**  
THE PRACTICE OF  
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**Ch. 4**  
CORPORATE SOCIAL  
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# Business Ethics Now

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# Welcome to **BusinessEthicsNow**

## WHAT'S NEW

### Throughout the book:

Modified *Learning Outcomes* meet student and instructor needs.

*For Review* section at the end of each chapter revisits and discusses the Learning Outcomes.

*Real World Applications* element in each chapter highlights situations students may face in their own life.

New, up-to-the-moment ethical examples include the BP oil spill and WikiLeaks.

### 1 Understanding Ethics

**NEW ETHICAL DILEMMA TOPIC** Sexting

**NEW INTERNET EXERCISE TOPIC** Taking ethics pledges

### 2 Defining Business Ethics

**NEW ETHICAL DILEMMA TOPIC** The AIG collapse

**NEW THINKING CRITICALLY** The Phoenix Consortium

### 3 Organizational Ethics

**NEW ETHICAL DILEMMA TOPIC** Mortgage modification programs

**NEW INTERNET EXERCISES TOPIC** Codes of ethics and product recalls

**NEW THINKING CRITICALLY** Bank of America

### 4 Corporate Social Responsibility

**NEW ETHICAL DILEMMA** Global Oil

**NEW REVIEW EXERCISE** Pangea Green Energy Philippines, Inc.



## 5 Corporate Governance

**NEW ETHICAL DILEMMA** The Stanford Financial Group

**NEW ETHICAL DILEMMA** John Thain and Merrill Lynch

**NEW INTERNET EXERCISE TOPIC** Outside directors

## 6 The Role of Government

**NEW INFORMATION REGARDING RECENT WALL STREET REFORM**

**NEW INTERNET EXERCISE** Elizabeth Warren and the Consumer Financial Protection Bureau

**UPDATED THINKING CRITICALLY** Satyam Computer Services

## 7 Blowing the Whistle

**NEW INTERNET EXERCISE** The National Whistleblower Center

**NEW THINKING CRITICALLY** Bradley Birkenfeld and UBS

**NEW THINKING CRITICALLY** WikiLeaks

## 8 Ethics and Technology

**NEW EXAMPLES IN THE SECTION “THE DANGERS OF LEAVING A PAPER TRAIL”**

**NEW INTERNET EXERCISE** The Electronic Frontier Foundation

**NEW THINKING CRITICALLY** An FTC settlement case

## 9 Ethics and Globalization

**NEW INTERNET EXERCISE** The Institute for Global Ethics (IGE)

**NEW INTERNET EXERCISE** Walmart’s Global Ethics Office

**NEW THINKING CRITICALLY** TOMS Shoes

**NEW THINKING CRITICALLY** Foxconn suicides

**UPDATED THINKING CRITICALLY** Offshore clinical trials

## 10 Making It Stick: Doing What’s Right in a Competitive Market

**NEW ETHICAL DILEMMA** Hewlett-Packard

**NEW INTERNET EXERCISE** Transparency International

**NEW THINKING CRITICALLY** Mott’s salary decrease

**NEW THINKING CRITICALLY** BP Oil

**NEW THINKING CRITICALLY** Andrew Wakefield and the MMR vaccine



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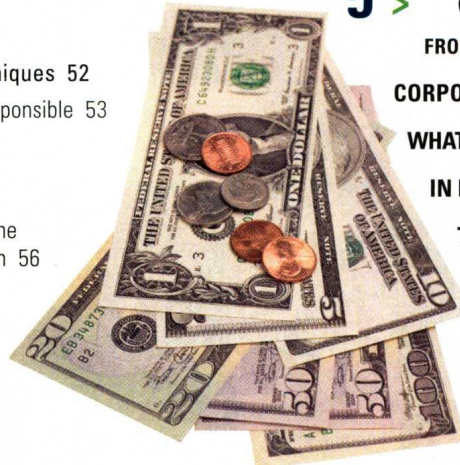
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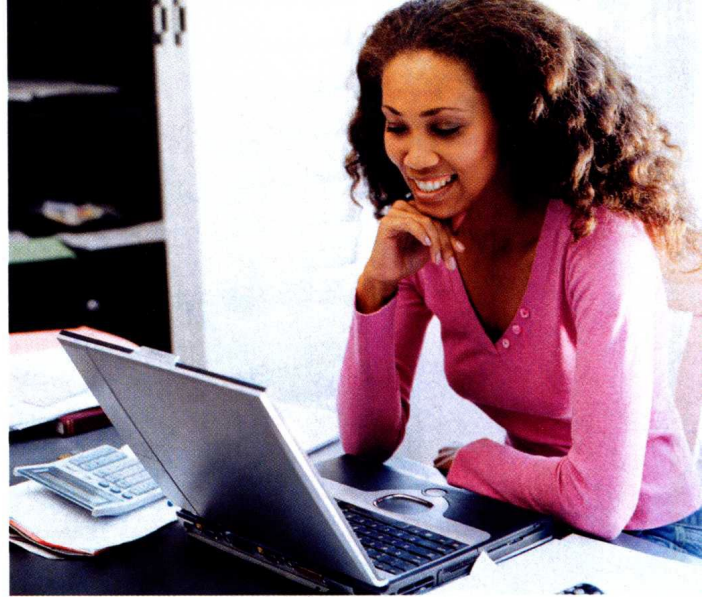
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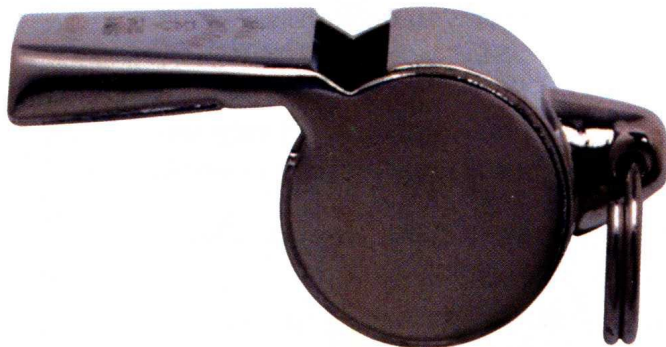
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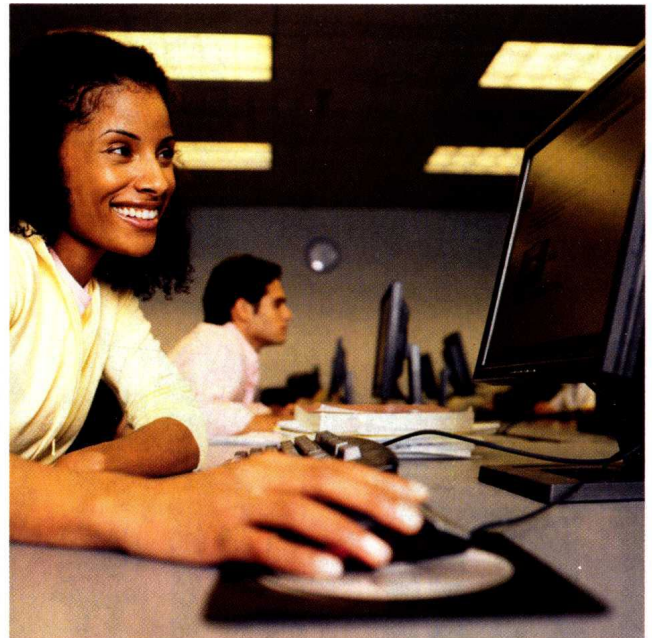
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# DEFINING BUSINESS ETHICS



- 1 Understanding Ethics
- 2 Defining Business Ethics

We begin by exploring how people live their lives according to a standard of “right” or “wrong” behavior. Where do people look for guidance in deciding what is right or wrong or good or bad? Once they have developed a personal set of moral standards or ethical principles, how do people then interact with other members of their community or society as a whole who may or may not share the same ethical principles?

With a basic understanding of ethics, we can then examine the concept of business ethics, where employees face the dilemma of balancing their own moral standards with those of the company they work for and the supervisor or manager to whom they report on a daily basis. We examine the question of whether the business world should be viewed as an artificial environment where the rules by which you choose to live your own life don't necessarily apply.



# UNDERSTANDING ETHICS



After studying this chapter, you should be able to:

- 1 Define *ethics*.
- 2 Explain the role of values in ethical decision making.
- 3 Understand opposing ethical theories and their limitations.
- 4 Discuss ethical relativism.
- 5 Explain an ethical dilemma and apply a process to resolve it.

## FRONTLINE FOCUS

### Doing the Right Thing

**M**egan is a rental agent for the Oxford Lake apartment complex. The work is fairly boring, but she's going to school in the evening, so the quiet periods give her time to catch up on her studies, plus the discounted rent is a great help to her budget. Business has been slow since two other apartment complexes opened up, and their vacancies are starting to run a little high.

The company recently appointed a new regional director to "inject some energy and creativity" into their local campaigns and generate some new rental leases. Her name is Kate Jones, and based on first impressions, Megan thinks Kate would rent her grandmother an apartment as long as she could raise the rent first.

Kate's first event is an open house, complete with free hot dogs and cokes and a clown making balloon animals for the kids. They run ads in the paper and on the radio and manage to attract a good crowd of people.

Their first applicants are Michael and Tania Wilson, an African-American couple with one young son, Tyler. Megan takes their application. They're a nice couple with a stable work history, more than enough income to cover the rent, and good references from their previous landlord. Megan advises them that they will do a background check as a standard procedure and that things "look very good" for their application.

After they leave, Kate stops by the rental office. "How did that couple look? Any issues with their application?"

"None at all," answers Megan. "I think they'll be a perfect addition to our community."

"Don't rush their application through too quickly," replies Kate. "We have time to find some more applicants, and, in my experience, those people usually end up breaking their lease or skipping town with unpaid rent."

#### QUESTIONS

1. What would be "the right thing" to do here? How would the "Golden Rule" on page 6 relate to Megan's decision?
2. How would you resolve this ethical dilemma? Review the three-step process on page 9 for more details.
3. What should Megan do now?

Ethics is about how we meet the challenge of doing the right thing when that will cost more than we want to pay.

The Josephson Institute of Ethics