

Business Ethics
Fourth Edition

O.C. Ferrell
Colorado State University

John Fraedrich
Southern Illinois University at Carbondale

Linda Ferrell
University of Northern Colorado

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Chapter 1...

An Overview of Business Ethics

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Business Ethics...

- comprises principles and standards that guide behavior in the world of business
- is right or wrong, acceptable or unacceptable behavior *within* the organization
- is determined by key stakeholders

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Social Responsibility...

- is the obligation a business assumes toward society
- is designed to maximize the positive influence & minimize the negative
- includes economic, legal, ethical, and philanthropic dimensions

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Why study business ethics & social issues?

- in an Ethics Officer Assoc. Survey, 48% of employees indicated that they had done something unethical or illegal in the past year
- annual cost of unethical or illegal acts by U.S. employees: \$400 billion

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Common Unethical Acts...

- lying to supervisors
- falsifying records
- alcohol and drug abuse
- conflict of interest
- stealing
- gift/entertainment receipt in violation of company policy

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Ethics Resource Center, Business Ethics Survey.

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Legalization of Business Ethics
-FSGO-

Federal Sentencing Guidelines for Organizations

- standards & procedures (code of ethics)
- high level oversight
- care in delegation of authority
- effective communication (training)
- systems to monitor, audit, & report
- consistent enforcement
- continuous improvement

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Chapter 2...

Ethical Issues in Business

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Key Causes of Unethical Behavior...

- meeting overly aggressive financial or business objectives
- meeting schedule pressures
- helping the organization survive
- rationalizing that others do it
- resisting competitive threats
- saving jobs

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Key Influences On Ethical Behavior...

- personal values
- supervisor influence
- senior management influence
- internal drive to succeed
- performance pressures
- lack of punishment
- friends/coworker influence

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Why Misconduct Is Not Reported...

- fear of not being considered a team player
- did not think corrective action would be taken
- fear of retribution (from management)
- "no one else cares, why should I"
- did not trust the organization to keep report confidential

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Classification of Ethical Issues...

- conflict of interest
- honesty and fairness
- communications
- organizational relationships

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Conflict of Interest...

- exists when an individual must choose whether to advance his/her own interests, the organization's, or others'
- examples include bribes or personal payments, gifts, or special favors intended to influence decision making

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Honesty & Fairness...

- following applicable laws a regulations & not knowingly harming stakeholders
- Is advertising prescription drugs on TV and in magazines fair?
- Are long distance information ads that place the cost of the call in very small print at the bottom of the screen fair?

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Communications...

- refers to the transmission of information and the sharing of meaning
- examples: deceptive advertising, product safety information, & product composition
- Are vitamin and herbal supplements using 'puffery' in their advertising?
 - Note: roughly half of Americans take supplements

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Organizational Relationships...

- behavior of organizational members toward stakeholders
- includes confidentiality, meeting obligations & deadlines, not pressuring others to behave unethically

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Ethical Issues Can Relate to All Functional Areas...

- accounting
- finance
- management
- marketing

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Chapter 3...

Applying Moral Philosophies
to Business Ethics

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Moral Philosophy...

- principles or rules that people use to decide what is right or wrong
 - teleology
 - egoism
 - utilitarianism
 - deontology
 - relativist perspective
 - virtue ethics

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Teleology...

- an act is considered morally right or acceptable if it produces some desired result, i.e., pleasure, knowledge, career growth, a self-interest, or utility
- assessing the moral worth of a behavior by looking at its consequences (consequentialism)

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Two Teleological Philosophies...

- Egoism: right or acceptable behavior in terms of consequences for the individual
 - maximize your self-interest, concerned with the consequences, seeking alternative that contributes the most to self-interests
- Utilitarianism: concern with consequences in terms of seeking the greatest good for the greatest number of people
 - looking for the greatest benefit for all those affected by a decision

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Deontology...

- focuses on the rights of the individual and on the intentions associated with behavior *not* on the consequences
- believe there are some things we should *not* do regardless of the utility

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Relativist Perspective...

- ethical behavior is defined by experiences of the individual and group
- the relativist or significant others are the basis for defining ethical standards
- such beliefs may change over time (i.e., advertising in the accounting profession)

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Virtue Ethics...

- consists of trust, self-control, empathy, fairness, and truthfulness
- what is moral is determined by current societal definitions

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Organizational Justice...

- distributive justice
- procedural justice
- interactional justice

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Distributive Justice...

- based on the evaluation of the outcome or results of the business relationship
- if you perceive that you are underpaid, you may cut back on your amount of work output, show up late, or look for another job
- evaluates benefits derived and equity

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Procedural Justice...

- based on the processes and activities that produce the results or outcomes
- evaluates decision making processes and level of access, openness, and participation

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Interactional Justice...

- based on an evaluation of the communication process used in business relationships
- evaluates accuracy of information and truthfulness, respect, and courtesy in the process

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Social Responsibility

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Social Responsibility...

- an organization's obligation to maximize its positive impact on stakeholders and to minimize its negative impact
- includes legal, ethical, economic, and philanthropic (discretionary) dimensions

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Legal Dimension...

- refers to obeying governmental laws and regulations
- civil law: rights & duties of individuals and organizations
- criminal law: prohibits specific actions and imposes fines and/or imprisonment as punishment for breaking the law

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Ethical Dimension...

- behaviors and activities that are expected or prohibited by organizational members, the community, and society (not codified into law)
- standards, norms, or expectations that reflect the concern of major stakeholders

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Economic Responsibilities...

- how resources for the production of goods and services are distributed within the social system
- Do you think consumers favor socially responsible companies or are they most enamored with companies that maximize profits?

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Philanthropic Dimension...

- business's contributions to society
- strategic philanthropy
 - Home Depot
 - Microsoft, Hewlett Packard, IBM
 - Avon

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A Framework for
Understanding Ethical
Decision Making in Business

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Factors Influencing Organizational Ethical Behavior...

- Ethical Issue Intensity +
- Individual Factors +
- Corporate Culture (including significant others and opportunity)
- = Ethical or Unethical Behavior

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Ethical Issue Intensity...

- your perception of the relevance or importance of an ethical issue (reflects individual and work group sensitivity)
- influenced by organizational use of rewards and punishment, codes and values of corporate culture
- Pennzoil settled a racial discrimination suit for \$6.75 million

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Kohlberg's Stages of Moral Development...

1. Punishment or obedience (rules and authority orientation)
2. Individual instrumental purpose and exchange (serving ones own needs)
3. Mutual interpersonal expectations, relationships, and conformity (emphasis on others rather than self)

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Kohlberg's Stages of Moral Development...

4. Social system and conscience maintenance (duty to society)
5. Prior rights, social contract, or utility (upholding basic rights, values, and legal contracts of society)
6. Universal ethical principle (right is determined by universal ethical principles that everyone should follow)

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Corporate Culture...

- a set of values, beliefs, goals, norms, and ways to solve problems that an organization's members share.
- What is unique about the corporate cultures of Wal-Mart, McDonald's, Hershey Foods, and Southwest Airlines?

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Significant Others...

- those who have influence in a work group including peers, managers, coworkers, and subordinates
- Do you have any corporate examples in which a "bad apple" spoiled a barrel? (when a key organizational member damaged the organizational reputation in the ethics/legal area)

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Opportunity...

- conditions that limit or permit ethical or unethical behavior
- opportunity to engage in unethical behavior can be limited through formal codes of ethics, policies, and rules that are adequately enforced

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Organizational Culture and Ethical Decision Making

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Centralized Organizations...

- decision making is concentrated at the upper management levels
- works well in high risk industries with less skilled lower-level employees
- ethical issues: very little upward communication, less understanding of the interrelatedness of functions, and transferring blame to those who are not responsible

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Decentralized Organizations...

- decision making is delegated as far down the chain of command as possible
- control and coordination are relatively informal and personal and the organization is adaptable and sensitive to external changes
- employees are empowered to make decisions, therefore decentralized organizations tend to have less formalized ethics programs and policies

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Corporate Culture...

- a set of values, beliefs, goals, norms, and rituals that members or employees of an organization share
- a company's history and unwritten rules are a part of its culture
- an organization's failure to monitor or manage its culture may result in unethical behavior

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Role of Leadership...

- to guide and direct others toward the achievement of a goal
- to motivate others and enforce organizational rules and policies
- is key in influencing the corporate culture and ethical posture of the organization (rewards and punishment)

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4 Dimensions of Leader Behavior Related to Rewards & Punishment...

- performance-contingent reward behavior
- performance-contingent punishment behavior
- noncontingent reward behavior
- noncontingent punishment behavior

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Role of Motivation...

- to focus employees behavior toward goal achievement within the organization
- to understand an individual's hierarchy of needs and how they influence motivation and ethical behavior

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Role of Power...

- 5 power bases from which a person may influence another:
 - reward power
 - coercive power
 - legitimate power
 - expert power
 - referent power

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Group Influence on Organizational Culture...

- formal groups:
 - committees
 - work groups, teams, quality circles
- informal groups

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Work Group Influence on Ethical Decision Making...

- perceived ethicalness of the work group has the greatest influence on daily ethical decision making

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**Organizational Relationships
and Conflicts in Ethical
Decision Making**

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Significant Others...

- superiors, peers, and subordinates in the organization who influence the ethical decision making process
- have an influence on ethical decision making in the organization

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Corporation as a Moral Agent...

- organizations can be held accountable for the conduct of their employees and for all business decisions and outcomes
- the organization is responsible to society for its collective decisions and actions
- organizations must be responsible for the correctness of all policies

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Variation of Employee Conduct...

- 10% of employees follow their own values and beliefs
- 40% try to follow company rules and policies
- 40% go along with the work group
- 10% take advantage of the situation if the penalty is low and risk of being caught is low

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Implications of Employee Conduct...

- employees use different approaches to making ethical decisions
- a large percentage of employees (50%) will either go along with coworkers or take advantage of the situation
- organizations must provide communication and control mechanisms to maintain an ethical climate

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Socialization...

- refers to the process through which a person learns the values and behavior patterns considered appropriate by an organization or group
- ethical conflict results when the values and norms taught through socialization contradict the new employee's personal values

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Role-Sets...

- total of all relationships in which a person is involved because of his or her position in the organization (role)
- peers and top managers are the most influential factors in organizational ethical decision making

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Differential Association...

- the idea that people learn ethical or unethical behavior while interacting with others who are part of their role-set or other intimate personal groups
- association with those who are unethical, combined with the opportunity to act unethically, is a major influence on ethical decision making

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Whistle-Blowing...

- exposing an employer's wrongdoing to outsiders, such as the media or government regulatory agencies
- whistle blowers often receive negative performance appraisals, become organizational 'outcasts,' and lose their jobs
- companies often establish internal whistle-blower reporting mechanisms

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Opportunity Creates Ethical Dilemmas...

- opportunity is the set of conditions that limits unfavorable behavior or rewards favorable behavior
- a person who behaves unethically and is rewarded (or not punished) is likely to continue to act unethically

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Chapter 8...

Development of an Effective Ethics Program

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Why do companies develop ethics programs?

- to allow employees and stakeholders to understand the values of the business
- to comply with policies and codes of conduct
- to create the ethical climate of the business

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Federal Sentencing Guidelines for Organizations...

- assess risk areas
- assign high level responsibility
- use care in the delegation of authority
- provide effective communication & training
- develop systems to monitor, audit, and report misconduct
- provide consistent reinforcement
- provide for continuous improvement

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FSGO Considerations if Misconduct Is Determined...

- organizations must remedy any harm caused by the offense
- if criminal purpose, fines are designed to put the firm out of business
- fines are based on the seriousness of the offense as well as culpability
- probation may be assigned

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Top Ten Unethical Behaviors Reported by Employees...

- sexual harassment
- lying on reports or falsifying records
- conflicts of interest
- theft
- lying to supervisors
- discrimination
- drug or alcohol abuse
- improper accounting procedures
- violation of environmental laws
- gift/entertainment violations

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Code of Ethics...

- formal statement of what an organization expects in the way of ethical behavior (what behaviors are acceptable or unacceptable)
- reflects senior management's organizational values, rules, and policies

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Six Steps in Implementing a Code of Ethics...

- distribute internally & externally
- assist employees in understanding
- specify management's role
- make employee's responsible for understanding the code
- establish grievance procedures
- provide a concluding statement

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How CEOs Support Ethics Initiatives...

- communicate directly with employees
- use their own "phraseology"
- tout successes and condemn failures
- use one standard for all employees (regardless of level)
- acknowledge & promote 'ethically aware' managers
- survey employees about the program

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Role of an Ethics Officer...

- coordinate the program with top management
- develop, revise, & disseminate the code of ethics
- develop effective ethics training tools
- establish audit & control systems
- develop enforcement techniques
- revise the program as needed

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Forms of Ethics Training...

- lectures
- videos
- CD-ROMs
- interactive CD-ROMs
- simulations
- games
- cases
- brief scenarios
- manuals
- web-based materials

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"Bad Apple" Theory...

- blame for unethical behavior rests with a few opportunistic individuals
- assumes that people are ethical or unethical and organizations will have little influence on their behavior

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"Bad Barrel" Theory...

- assumes corporate culture can influence otherwise ethical individuals
- the organization can influence ethical behavior

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Ethical Compliance Audit...

- systematic evaluation of an organization's ethics program and/or performance to determine its effectiveness
- focuses on the key factors that influence how ethical decisions are made

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Chapter 9...

Business Ethics in a Global Economy

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Self-Reference Criterion...

- unconscious reference to one's own cultural values, experience, & knowledge
- a reaction based on knowledge grounded in our cultural heritage & accumulated over a lifetime
- may not have the same relevance to people of other cultures

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Perceptions of Corruptness...

- Least Corrupt:
 - Denmark
 - Finland
 - Sweden
 - New Zealand
 - Iceland
 - Canada
 - Singapore
 - Netherlands
 - Norway
 - Switzerland
- Most Corrupt:
 - Cameroon
 - Paraguay
 - Honduras
 - Tanzania
 - Nigeria
 - Indonesia
 - Colombia
 - Venezuela
 - Ecuador
 - Russia

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Culture...

- everything in our surrounding made by people, both tangible and intangible
- language, religion, law, politics, technology, education, social organization, general values, & ethical standards
- differences in speech & body language

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Cultural & Ethical Relativism...

- Cultural relativism means that morality varies from one culture to the next (business practices are defined as right or wrong based on a particular culture)
- Ethical relativism is the belief that only one culture defines the ethical behavior for the whole globe, without exception

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Multinational Corporations...

- corporate organization that operates on a global scale without significant ties to any one nation or region
- because of their size & financial power MNCs have been criticized for engaging in unethical behavior

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- corporate organization that operates on a global scale without significant ties to any one nation or region
- because of their size & financial power MNCs have been criticized for engaging in unethical behavior

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Criticisms of MNCs...

- transferring jobs to countries where wages are low
- using labor saving devices resulting in increased unemployment in countries where they manufacture
- increasing the gap between rich and poor nations by misusing & misallocating scarce resources

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Caux Round Table...

- collaboration with business leaders in Europe, Japan, & the U.S. to create an international code of ethics
- this group reviewed laws enacted around the world to determine universal conceptualization of ethical conduct

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Global Ethical Issues...

- sexual & racial discrimination
- human rights
- price discrimination
- bribery
- harmful products
- pollution
- telecommunications issues

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Sexual & Racial Discrimination...

- U.S. law prohibits American businesses from discriminating on the basis of sex, race, religion, or disabilities in their hiring, firing, & promotion decisions
- globally, discrimination is culturally embedded in many countries/regions

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Human Rights...

- concern for the well-being of employees; key concerns are use of child labor, payment of low wages, & abuses in foreign factories
- multinational corporations should view the law as the floor of acceptable behavior and strive to improve workers' quality of life

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Price Discrimination...

- occurs when a firm charges different prices to different groups of customers (these differences are legal if they do not reduce competition, or can be justified on the basis of cost)
 - *gouging* is when unusually high prices are charged due to a shortage
 - *dumping* involves charging high prices for a product at home and low prices in foreign markets

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Bribery...

- facilitating payments are acceptable in many cultures
- U.S. law addresses this issue with the Foreign Corrupt Practices Act:
 - prohibits American corporations from offering or providing payments to officials of foreign governments to obtain or retain business abroad

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Causes of Bribery...

- matching competitor's bribes
- lack of monitoring and training
- organizational pressure to meet sales quotas
- belief that bribery is a cost of doing business
- perception that bribery is acceptable
- vendor pressures for bribery
- political involvement in decision making
- showing appreciation
- gaining entrance in to new markets
- displacing major competitors

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Harmful Products...

- issues surrounding pesticides, tobacco products, dumping of waste materials, illiteracy, unsanitary conditions, & cultural values

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Pollution...

- there are no physical boundaries on the extent of the damage resulting from environmental abuse
- key concern areas:
 - carbon dioxide (greenhouse gas)
 - methane gases
 - overall water & air quality

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Telecommunications Issues...

- violations of copyright laws
- money laundering
 - illegally received funds are transferred or used in a financial transaction so as to conceal the actual owner

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Chapter 10...

Business Ethics and Organizational Performance

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Ethics & Performance Correlations...

- intrafirm trust
- commitment to quality
- customer satisfaction
- employee commitment
- profitability

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Benefits of Intrafirm Trust...

- efficiency in decisions and actions of employees
- many human resource problems decrease (turnover, conflict, absenteeism, and apathy)
- effectiveness results from communication improvements throughout the organization

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Ethics & Commitment to Quality...

- the # 1 breach of ethics was the compromise in quality, with respect to customers (EOA, 1998)
- majority of employees (80%) admit to doing the 'bare minimum' with respect to quality (Kelly, 1987)
- ethical climate has been linked to improvements in the commitment to quality=customer satisfaction (Loe, 1996)

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Customer Satisfaction & Ethics...

- 76% of customers will switch to brands or stores based on ethics & societal issues (Cone/Roper, 1997)
- 88% of consumers are more likely to buy from a socially responsible firm (Walker Research, 1998)
- the cost of ethics is an investment in customer loyalty

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Committed Employees & Ethics...

- creates employee loyalty
- encourages personal sacrifices
- focuses on organizational success
- honors organizational policies & contractual obligations
- reduces turnover
- satisfies customers

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Ethics & The Bottom Line...

- sales growth, profits, and ROI are correlated with corporate citizenship (Maignan, 1997)
- an investment in the 10 most admired *Fortune* firms would result in 3 times the return of the S&P 500
- business ethics = profits!

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Corporate Ethics = Profits...

- top management support
- core values/organizational culture
- code of conduct
- ethics training/program
- reporting and monitoring
- continuous improvement
- ...profitability...

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