

## Appendix – A

### Ethics in Banking The Case of Bangladesh<sup>1</sup>

Banks are institutions where savers put their short or long term surplus generally for transaction and precautionary purposes and the users of these surplus supplement their finance for trade investment. In recent years investment has assumed almost equal importance as trade as banks severally and collectively respond to accelerated demands for finance for different purposes. This requires careful balancing of costs and returns at various levels to play a positive sum game prudently, but such prudence can be subjected to adventurism (e.g. Baring), questionable conduct (e.g. BCCI), and unethical practices (e.g. recent investigative report in the Daily Star and the Bhorer Kagoj and fraudulent practices by non existence business under the protection of a corporate house perpetrated on private bank enrolled by that corporate house.

Banks more specifically nationalized commercial banks are alleged to suffer from inefficiency & unethical conduct of most of their operations. These banks are expected to render services in such a way that will accelerate the growth rate of the country. Their services are justifiably expected to have reasonable bias towards the relatively disadvantaged class of the society. But in contrast to this popular expectation, these banks are reportedly involved in unethical transactions not a morally acceptable.

#### 1. Nationalization of Banks

It was this conception of a banking system as a bastion of privilege where wealth perpetuated wealth which encouraged the move towards bank nationalization in many countries. The prospect of urban based banks including the rural areas, ignoring rural based borrowers, and large segments even of the urban population by targeting their loans for relatively risk free operations such as trade and opening of letters of credit generated public pressure for a more democratic banking system which serviced a wider constituency of clients and served a more diversified economic terrain.

The primary goals of bank nationalization in 1972 included the obligation to save an abandoned banking system from collapse, to spread the coverage of the banking system to the rural areas and to provide access to bank franchising to a wider constituency of borrowers drawn from a less privileged background.

The logic of bank nationalization lay in the need to build a democratic banking system built on principles of social justice. The system was designed to serve a much broader constituency of borrowers, small farmers, rural and small entrepreneurs, new medium sized entrepreneurs as well as the nationalized industries.

In 1972, at the time of nationalization, there were only 1116 bank branches across Bangladesh of which 38% were located in rural areas. By 1980 bank branches had increased to 3748 of which 63% were now located in rural areas. Thus, of the 2362 new branches opened between 1972 and 1980, 81% were located in rural areas. A further 1848 branches were opened between 1980 and 1991 of which 73% were located in rural areas. This geographical spread of the banking system was arrested by the process of financial sector reforms. Today (1998) only 61% of the bank branches are located in the rural areas. These are largely NCBs. Private banks have opened few branches in the rural areas (3563) compared to 1991, when 3717 branches operated in rural areas.

#### 2. Unethical Practices in Banks

The unfortunate fact is that the bankers have taken the job as a means for making good life and have overlooked weightier responsibilities that attend the practice of the profession. Bankers are not alone in having a moral obligation but bankers, dealing in others peoples' savings and impacting on the economy broadly, carry the wider

<sup>1</sup>In preparing this section, the author has drawn selectively from Nurul Matin Memorial Lectures [1]. Ahmed M, "Ethics in Business and Banking", March 3, 1999 and [2]. Sobhan R. "Ethics in Banking" June 5, 2000, BIBM, Mirpur, Dhaka.



responsibility as greatly as the law makers, teachers, doctors and so on. Bankers through their direct contract with the principal actors in the economy can collectively play the role of a whistle-blower. One should remember that banking as a social institution does not provide only private goods but in a developing country like Bangladesh it is required to make provision for social goods as well and an imperfect market like ours fails to create appropriate balance in the absence of proper ethical moorings.

The basic malaise in the business and banking has been caused by non-adherence to this golden rule of consistency which makes no scope for making exception even unto oneself. Some of the clearest cases of unethical behavior involve people making exception to friends, influential people and may be unto themselves. A banking executive, like all business executives, must not engage in unfair activities on his own or under pressure. Deceptive/inequitable practices, besides being inconsistent and unfair, are self-defeating because its universalization, undermines the system and social relations on which its own survival rests. This is the case in our banking industry and also in the ailing finance sector in many developing countries.

The role of a manager to uphold ethics is most important. But in upholding considerations of justice and fairness, avoiding harm on the basis of ethical considerations, manager runs into a conflictual situation with vested interest groups often protected by decision makers. The manager is an agent of the owner and it is his duty to obey all legitimate directions of the owner to conduct the business within the limits of law and ethical custom. The conflict is real. Further, as an agent the manager has to perform the duty confidentiality, and duty of loyalty. The duty of confidentiality with respect to intellectual property is defensive but confidentiality about unfair practices that militates against the society and corporate interest is not defensible even under the rule of law. The duty of loyalty is basically related to avoidance of conflicts of interest (e.g. providing Consultancy services while in the Investment Bank) but loyalty should not and cannot stifle one's conscience. One has a duty to be loyal only if the object of loyalty is one that is morally appropriate. An employee has a responsibility to inform the public of thing internal if he acts on moral motive after exhausting all internal channel for address. An employee has no obligation to become an accomplice in morality indefensible and socially harmful acts of owners. The legal framework today is not adequate to protect such employees from harassment. One should not forget that besides depositors, the community is a stakeholder. Recently freedom of owners of business or banks have been successfully challenged in the courts of the west for violating public interests. These case in point is a challenge to establishing or funding pollutant business endeavors in many western countries. Some of the unethical practices reported in the press in the recent past about the operations of the banking activities include, among others, the following:

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|---|---|
| i. Discriminatory treatment to urban and rural depositors,  | vi. Insincere appraisal of loan proposal leading to wrong conclusion,   |
| ii. Discriminatory treatment to small and big depositors.   | vii. Red-tapism in processing loan cases of ordinary applicants,  |
| iii. Discriminatory treatment to bank's clients in power and out of power,  | viii. Speedy processing without reference to required steps for those who could buy such favor  |
| iv. Uneven distribution of credit with bias to metropolitan localities,   | ix. Absence of or nominal inspection & monitoring of big loan cases, preferably of those who have both power and money to influence the bankers . |
| v. Special treatment by way of favoritism and nepotism to relations and to those who could influence them with financial benefits | x. Improper record keeping of the repayments made by the underprivileged small loanees and the like.  |

### 3. Obligations of Banks as Businesses

William Frankena has analyzed obligation of business (banking) into three components of (a) avoiding negative impact on the society, (b) preventing such harm and (c) positively promoting social good. Following Frankena, it is imperative that the banking sector avoids such practices that cause harm to the depositors, the financial system and the economy. That is not enough; the banking system must work to prevent harm to interested parties. In addition, in an economy like Bangladesh, the sector must promote positive impact and externalities above and beyond the call of duty.



In this conception of justice used by me as it applies to the banking sector focuses on establishing a sense of fairness in providing access to banking services and resources. Banking services should thus be guided by economic efficiency, social and political justice. In practice, deposits within our banking system originate from a broad cross section of society but tend to serve the demand for credit of a much narrower cross section of citizens. This violates the norms of both social and economic justice.

In relating justice to banking we should keep in mind that in a market driven system, bank's are not designed to be development institutions or welfare agencies. Their primary goal remains to make the best possible profit for their bank shareholders. Thus, it is argued that if banks are to sustain themselves as profit making corporate entities they will be inclined to entrust their resources to those who can be relied upon to repay their loans with interest. Such borrowers should normally be people who use resources efficiently. However, efficiently is not always the dominant criterion for lending. Bank managers tend to be more influenced by the social structure of borrowers on the assumption that affluent citizens are likely to be more creditworthy and hence can be relied upon to repay their loans.

Within the prevailing logic of the credit giving institutions, the operative issue is repayment rather than actual use of the credit. The commercial banker is not necessarily guided by the promotion of efficiency in industry or agriculture or in poverty alleviation. Their principal concern in lending money is to minimize risk and reduce administrative costs. For this reason bankers remain more comfortable dealing with clients with big accounts, who came from a shared social background, and are relatively well known, whereby a relationship of trust is more easily established. Given the specific nature of a market driven banking system it is again not surprising that it is seen as a rich man's game, where those with wealth and status remain eligible to attract bank loans which will further enhance their opportunities to earn more wealth and further improve their social standing. Such banks accordingly concentrate themselves in urban centers close to their major borrowers.

#### **4. Efficiency and Justice in Banking**

The biggest injustice in the banking system however originates in the fact that a highly inequitable dispersal of bank credit on capital and current account has yielded such a high rate of defaulted loans. This indicates that inequity has been compounded by inefficient use of loanable funds. This inefficiency may be deliberate where borrowers with the ability to repay do not repay loans. Defaults may also originate from inefficient entrepreneurship where the borrowers make an inappropriate set of investment choices, misread the market, misread the behavior of public policy and institutions and eventually mismanage the enterprise.

It is far from certain that the attempt to improve the efficiency of the banking system has improved as a result of a decade of externally imposed financial sector reforms.

It is this very spread of the banking system to encompass a large proportion of the households of Bangladesh which brings the issue of justice within our discourse on ethics. Today, the banking the issue of justice within our discourse on ethics. Today, the banking system is no longer the exclusive preserve of a narrow urbanized elite but involves a very large proportion of household, if we also include clients of the MFI system. This large and growing constituency now has to be recognized and accommodated by the banking system not just as depositors but also as borrowers by reconciling the principles of efficiency and equity. This reconciliation may be realized if the banking system places justice as the guiding criteria for the discharge of their institutional responsibilities. Justice in the banking system means that the bank's fiduciary relationship to all its depositors should be honored. Banks should not only give them a sense of security that their funds are not misappropriated but that they use these funds both efficiently and justly. Efficiency here means that funds should go to those who service their loans and use credit productively to provide good and services. Justice means that credit is available to all classes of the population, who are now already inducted into formal banking system.

#### **Micro-credit and social justice**

In the prevailing circumstances of such a high percentage of default amongst affluent borrowers, attention needs to be given to the fact that a new class of micro-borrowers have emerged on the banking scene.

The MFIs have at the least established that the more deprived segment of the population are now familiar with commercial banking. They know about their fiduciary obligations, they have to make intelligent market decisions



on investment and manage their resources with enough efficiency to be able to service loans, paying market based rates of interest. These low income households are not recipients of charity but are now small entrepreneurs who have managed to become effective and creditworthy borrowers. Thus, the real achievement of the MFI, has been to contributing to the spread of institutional banking at the expenses of the traditional sources of informal credit and should be so recognized.

### **Social Justice in the Banking System**

This inequitable dispersal of loans as between households is compounded by the inequity in the geographical spread of the loans. The rural areas as of 31.3.99 received only 17.2% of all loans even though they accounted for 22.3% of deposits. It is significant that the urban areas of just two districts, Dhaka and Chittagong accounted for two thirds of all bank advances.

It is thus evident that our formal banking system, has been unjust in the direction of its loans by under serving small borrowers, the rural areas and key sectors such as agriculture and small industry. It has, in contrast, served the elite of our society thorough a highly concentrated pattern of lending where some 5000 borrowers, largely located in the urban centres of Dhaka and Chittagong have monopolised bank advances.

### **Political Justice in the banking system**

The perpetuation of social and economic injustice in the banking system is compounded by the erosion of political justice. Our political institution have become increasingly dominated by an affluent elite who exercise considerable influence in the major political parties and in the national parliament. Recent research has shown that these political institutions have now come to play an active role in influencing bank lending practices. More obviously, this influence is brought to bear on influencing bank Boards and management to condone default by repeatedly rescheduling defaulted loans.

Since a number of defaulters are now sitting in parliament, they have the capacity to bring their directly before our legislators. The recent episode where a particular Parliamentary Committee intervened to argue the case of a particular defaulter and take the Finance Minister to task is a demonstration of the influence of defaulters on the political system.

### **5. Establishing Ethical Standard**

It may be said that today it is absurd to regard business and banking simply as enterprises established for the sole purpose of profit making. The business and banks can exist in the long run only if they benefit the society and the economy and thus they must serve public purpose and be mindful of social good. The business in general and the banks in particular have a duty as the governmental and controlling authority to create and sustain an operational environment that is creative and promotive of ethical standards. In recent history the most notable failure to achieve common welfare has been the failure of regulators, allocators and users of resources to develop **ethical standards** of decisions. The standard needs the following conditions: (a) it must be general and not situation or person-specific, (b) it must be known to all and be part of general practice, (c) it must be understandable, (d) it must not be made self-contradictory through use of discretion, (e) it must be within the consensual norms respected by the citizens, (f) it must not be time-specific i.e. be stable through time, (g) its evolution should not be contrary to basic universalism i.e. relativism should not from any part of the standards, and (h) the actual administrative must act to uphold it and make no compromise about it. These conditions enunciated in terms of ethical basis of law equally applies to the conduct of all transactions including business and banking. All concerned people should rise upto these standard when the country is struggling to achieve discipline, development, equity, justice and fair play in our public endeavors to achieve competitiveness and efficiency by the first quarter of new millennium

### **6. Institutionalization of Ethics for Banks**

To institutionalize ethics within the banks we can suggest that top management of the banks should

- i. articulate the operating banks' values and goals,
- ii. adopt an ethical code applicable to all the members of the banks ,
- iii. set up a high-ranking ethics committee to oversee, develop, and enforce the code, and
- iv. incorporate ethics training into all employee development programs.



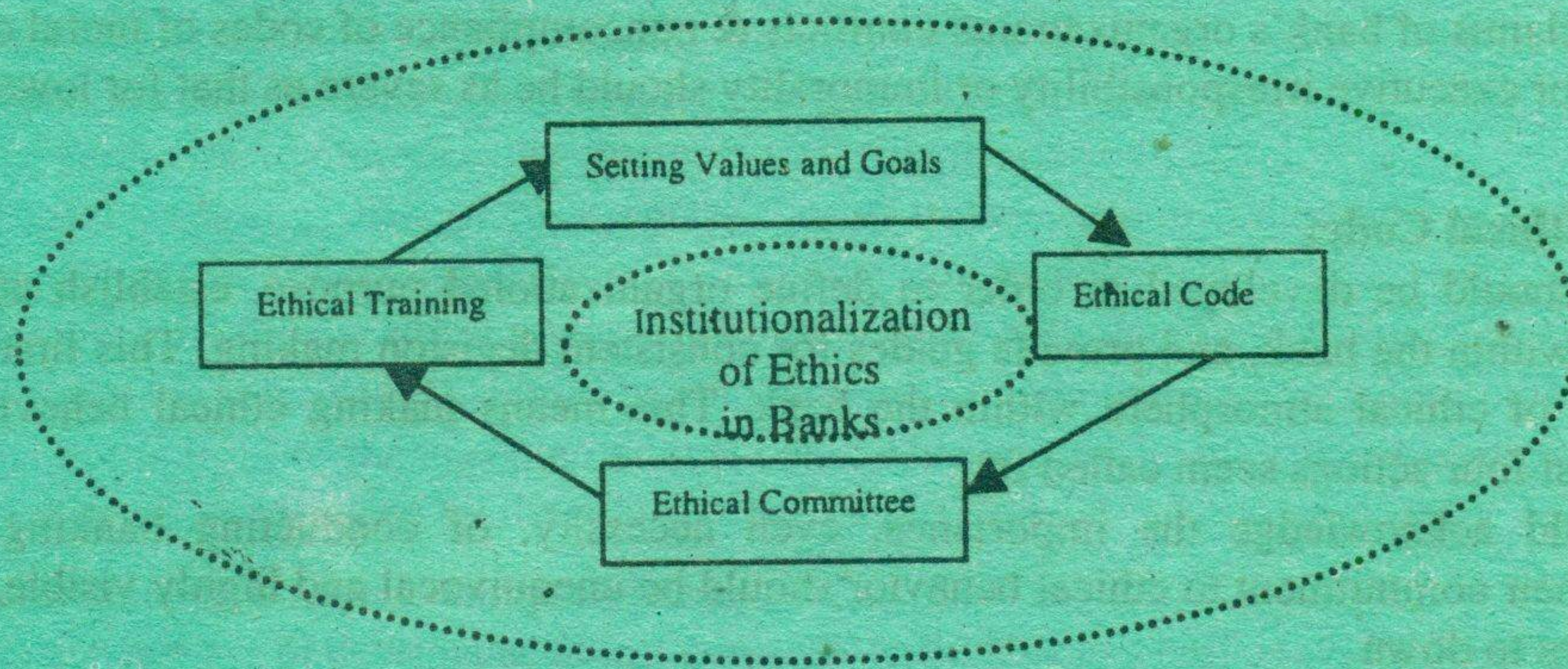


Figure- Appendix A-A: Showing Processes of Institutionalization Ethics

The banks' code of ethics should not be window dressing or so general as to be useless. It should set reasonable goals and subclass, with an eye on blunting unethical pressures on subordinates. In formulating the code, the top-level ethics committee should solicit the views of the banks' members at all levels regarding goals and subclass, so that the final product articulates, "a fine-grained ethical code that addresses ethical issues likely to arise at the level of subclass. Moreover, the committee should have full authority and responsibility to communicate the code and decisions based on it to all members of the banks, clarify and interpret that code when the need arises, facilitate the code's use, investigate grievances and violations of the code, discipline violators and reward compliance, and review, update, and upgrade the code.

To institutionalizing ethics within the banks it is suggested that any bank should undertake four steps:

**[i] Articulate the bank's values and goals:**

An environment of honest work with moral conduct in performing tasks of a bank is desired. In finding such an environment the authority should:

1. The bank should develop a philosophy of ethical conduct in the business.
2. The top management of the bank should set the goals and aspirations out of the discharge of bank's conduct following moral and ethical norms.
3. Responsibility should be not only repaired but taught by example.
4. Determination should be made about how much disclosure is appropriate, and to whom. The determination should be made not unilaterally, but through reasoned discourse with those seeking information and those to whom one is rightly accountable.
5. Management of the bank should be accountable to other employees as well as to the board, and the employees should be accountable to each other as well as to management.
6. Banks should develop input lines whereby employees, clients, stockholders, and the public can make known their concerns, demands, and perceptions.
7. Banks should develop a mechanism for anticipating the various demands & expectations, for seriously considering and weighing them, and for proposing appropriate action in order to show honest concerns.
8. Banks should develop techniques for disseminating to those interested the basis for decisions affecting them.
9. A bank that wishes to preclude the necessity of whistle blowing should provide procedures, mechanism, and channels whereby any members or the organization can file moral concerns of the kind that lead to whistle blowing, and can get a fair hearing.



10. The bank should hold some highly placed official responsible if insufficient attention is paid to a legitimate claims of bank's organizational conflicts & noncompliance of codes of moral conduct.
11. The price for executive irresponsibility or immorality should be as severe as that for lower-level employees.

**[ii] Adopt an Ethical Code:**

Written codes should be developed in order to define organizational purpose, establish an uniform ethical climate within the bank, and provide guides for consistent decision making. This first step is to ensure creation of ethical atmosphere within the bank. This means making ethical behavior a high priority. At least four actions seem called for:

1. Bank should acknowledge the importance, even necessity, of conducting banking business morally. Their commitment to ethical behavior should be unequivocal and highly visible, from top management to down.
2. Banks should make a real effort to encourage their members to take moral responsibilities seriously.
3. Banks should end their defensiveness in the face of public discussion and criticism. Instead, they should actively solicit the views of stockholders, managers, employees, suppliers, clients, and conduct a candid ethical audit of their bank's organizational policies, priorities, and practices.
4. Banks must recognize the pluralistic nature of the social system of which they are a part.

**[iii] Committee to Institutionalize Code of Ethics**

Mere framing a code of ethics is not enough. A high powered committee is required to monitor the implementation of the course of action as indicated by the code of ethics. This committee should have full authority and responsibility to:

- [1] Hold regular meetings to discuss ethical issues of the bank
- [1] Communicate the code and decisions to all the members of the bank;
- [2] Provide clear guidelines for ethical behavior;
- [3] Teach ethical guidelines and their importance;
- [4] Clarify and interpret the code when need arises;
- [5] Facilitate the code's use;
- [6] In gray areas where there are questions about the ethics of an action, refrain from it;
- [7] Set up controls [for example, establish an auditing agency reporting to outside directors] that check on illegal or unethical deeds.
- [8] Conduct frequent and unpredictable & surprise audits;
- [9] Investigate grievances and violations of the code
- [10] Discipline violators with due punishment & reward compliance and make the same public so that it may deter others from trespassing & violations
- [11] Emphasize regularly that loyalty to the bank does not excuse improper & unethical behaviors or actions.
- [12] Review, update, and upgrade the code.

**[iv] Arrange Appropriate Ethics Training**

A well thought out training program should be developed in order to prepare the personnel in the bank orient their behavior & conduct in way the code of ethics prescribes. For this purpose and to make the training effective:



- [1] A training module be developed which may be a little different depending on the type of the banks – urban, rural, off-shore or foreign;
- [2] Trainers should first be trained by outside experts in the line;
- [3] Workshops, seminars, conferences be arranged in the banks periodically;
- [4] Informal social warmings like picnics, sports, group travels, group prayers etc. may be used in such orientation preferably at the expense & initiative of the banks;
- [5] Silent observation of the decisions taken & treatment done with the interest groups be conducted;
- [6] Superiors/ bosses at every level should be encouraged to demonstrate exemplary ethical actions & decisions in the light of the accepted ethical code. This will make the subordinates follow their bosses and thus act as required by the ethical code of the banks.

#### 7. Suggestions for Raising Ethical Conduct In Banks

One of the most effective ways of developing ethical principles in banking and business is by developing code of ethics and setting the rules that are to be followed. The codes of ethics, developed by chambers, business associations and bank professional are useful devices to assist individuals to behave ethically. Our chambers cry hoarse about malpractice in banks but only bank officials cannot be corrupt unless working in collusion with business people. It may be strongly urged that the chambers to develop codes of ethics for its members, particularly with respect to dealings with financial institutions and in the stock market, and monitor it effectively.

- a) In order to ensure that our NCBs and specialized institutions target the deprived segments of the population in their lending program we should find ways to make these institutions publicly accountable. Such an approach may consider divesting part of their share to their own depositors with accounts below a certain ceiling. This would convert millions of citizens of modest means into prospective owners of public institutions. This move also compel the NCBs to publicly account to this mass constituency of depositors and not exclusively to the Ministry of Finance, their de facto owner. Other stakeholders in the way of prospective borrowers such as small farmers, small entrepreneurs, micro-credit borrowers could also be given an equity stake in these public institutions. But this will require some organizational effort to target such clients and bring them together as group investors.
- b) Public financial institutions should observe complete transparency in their transactions. Where necessary, banking secrecy laws should be amended to enable the banks to make full public disclosure of their transactions. This would involve, for example, publishing the identity and loan particulars of all loan recipients above Tk. 1 crore, as well as records of the servicing of such loans, their defaults if any, and all rescheduling of debts where this takes place. The Finance Minister should be instructed to report this information to the Parliament at the time of placing the budget.
- c) NCBs and specialized banks should be insulated from political pressure. This commitment should be made public on the basis of a political consensus amongst the major political parties. All levels of public bank management upto the Managing Director, should be instructed to report all phone calls or communications from political and other persons of influence seeking to plead the case for a client borrower or defaulter. All such patronized loan application should be penalised. All such acts of external pressure should be reported to Parliament and made public.
- d) The Finance Minister should report to Parliament on all loans made to small beneficiaries, i.e. small farmers, business, micro-credit. An appropriate definitional ceiling should be developed for this system of reporting.
- e) Private banks should also be encouraged to democratize their ownership. For those private banks with large loan classification ratios and which are in consequence under-capitalized, their capital inadequacy should be made up by the government through an equity injection. This new equity inflow to these banks should be distributed among a large cross section of the deprived classes. These prospective equity holders can be financed by NCB loans and can be repaid from their future dividends paid by the private banks. Private banks should be completely in their accounting and remain fully accountable to both their shareholders and depositors.



- f) The new private banks should, as part of their license conditions, have to distribute say 25% of their equity to this category of deprived stakeholders. The private banks should also be persuaded, as with public institutions, to give an equity stake to their low income depositors.
- g) Under no circumstances should a private bank owner, defined as a member of the Board of Directors, be permitted to borrow from their owner bank.
- h) Members of Parliament should be disqualified from borrowing from public financial institutions. This will ensure that any conflict of interest between their responsibilities as a public representative and as a claimant of the resources of public institutions is avoided. All current defaults of MPs should be reported to Parliament on a regular basis.
- i) A number of new banks, with low income groups as their equity owners, should be incorporated as commercial banks targeted to serve the deprived as owners and clients. These banks should compete in the open market with NCBs and private banks for deposits, and clients on the basis of their performance.
- j) Bangladesh Banks should extend its regulatory and custodial functions to protect the interests of depositors as well as clients from the deprived classes. To this end it should encourage all banks to serve these constituencies and should promote institutional reform to equip banks to deal with a new client base.

### 8. Conclusion

The above suggestions are merely illustrative of an agenda for initiating ethical conduct of performance in the banking system of Bangladesh. A more definite agenda should emerge out of a process of extensive and intensive public consultation. It must be recognized that the supreme ethics in any society must be founded on the principle of justice. A society which deprives its most productive citizens of resources, in spite of their proven integrity in the use of such resources, is likely to perpetuate poverty as well as underdevelopment, and will in the process erode the foundations of a democratic society.

Bank managers & other bank personnel operate in a complex environment. There is also a complex of social factors. Government policies changes with the change of the governments, hence banks are most likely to be affected. The political environment changes with the social demands and beliefs. Thus the banks are affected by laws, regulations, and court decisions over time. The need to develop ethical standards & codes of ethics can never be overemphasized in case of ensuring ethical conduct of banking operations. But when the societies & values in them got changed, it becomes difficult for the banks and their management to uniformly follow the set of rules of the code of conduct.



## Appendix – B

### Case Study

#### [A] Cases with Illustrative Analyses

##### Case 1

##### Car Economy Case

A design engineer in a major auto company received two reports concerning engine fires and explosions which occurred in hot weather in the company's popular economy car. At the time the engine of this model was approved and released for production, the engineer advised the plant that he felt carburetor and gas lines were constructed in such a way that under excessive heat conditions there could be a gas leak. At that time, the engineer argued for a modification, which would have added about fifty taka to the cost of producing each engine, but this proposal was turned down. He continued to argue for the modification and for special testing, but the standard tests performed on the car did not indicate any danger, and the engineer was told to drop the issue. Upon receiving the two reports, however, the engineer again pressed for special testing under excessive heat conditions, and urged the company to warn the public and immediately recall all of the cars of this model. By this time, however, such a recall would probably have cost the company between half a lakh to one lakh, and the engineer was again told to mind his own business or he would be fired. In the meantime, four more reports of engine fires came in from a desert area in the southwest. The engineer was now convinced that he was right.

What should he do? To what extent does he owe loyalty to the company where he has worked for fifteen years and has been promoted several times, and to what extent is he obligated to let the public know the truth? Since the company is taking the responsibility off the engineer, should he do something about what he knows, or should he just drop the problem? And considering the fact that the company could lose up to Tk. 10 lakh, what are its obligations? What do you think of the way it has handled the entire situation?

##### Analysis

This case is a good example of a situation in which production and profit in business take precedence over safety. Manufacturers often are loath to increase the cost of production in order to make their products safer; they would rather take the risk that no harm will result from this than that the product will be safe enough. Obviously, as this case illustrates, this attitude often results not only in a threat to people's health and lives, but also in a higher cost in the long run to the manufacturer, in poor public relations as well as in money. This car company compounded its original mistake by ignoring the fact that the mistake was costing lives, making no effort to rectify it once it was discovered. Furthermore, the company even threatened to penalize the employee who was trying to rectify the problem. In this situation, public health and well-being should have been the main priority, not profit and loss. The design engineer was right in attempting to diligently correct the safety error, and the fact that the car manufacturer consistently penalized him for his ethics instead of rewarding him is a perfect example of misplaced values. The engineer's first ethical obligations were to the protection of innocent lives and to his own sense of right and wrong rather than loyalty to a company which, in fact, nullified any obligations its employees might have had to be loyal to it; one need not and indeed should not be loyal to an organization which is unethical. The engineer should have quit or allowed himself to be fired and then reported what he knew to public authorities. This action would have provoked an investigation, stopped production of the car until proper corrections were made, and in the long run such a policy will cost them less. The research engineer cannot shirk his own ethical responsibility from him because the lives of innocent people are involved here. Losing his job may be a hardship, but he really has no other choice if he wishes to be ethical.

##### Case 2

The cost of living in Chittagong has gone up 10 percent during the year, and Green's union has been negotiating with the management of the plant where he works for a 15 percent raise to cover the present cost of living plus an additional expected increase. The plant, however, has not had a good year, and management and the union decide



on an 8 percent raise which a majority of the members, not including Green, agrees to. Green decides that since he has been shorted 2 to 7 percent of his raise money, he will try to make up for it by taking some expensive tools, small pieces of equipment, and supplies home from the plant in order to remodel his workshop at home. He was planning to do this remodeling with some of the raise money anyway, and he feels he was gypped out of this money unfairly because he didn't vote for the raise that was accepted by the union. Is Green justified in his actions? Why or why not? Does management have any obligation to meet the cost of living? Since Green voted against the smaller raise, is he under any obligation to accept it? Why or why not? Is he justified in making up the difference between the raise he got and the cost of living by taking things from the plant? Why or why not?

#### Analysis

Green's decision is wrong because he is ignoring an agreement made when he entered his union to abide by majority decisions in negotiations. It is also unethical to steal from one's business even if the company is insured against loss of tools and equipment and even if the company is insured against loss of tools and equipment and even if a worker thinks that the company can afford the loss because it makes so much money. Since a majority of Green's co-worker and fellow union members approved the contract, he has no right to violate it unilaterally. Evidently, management and the union worked out what they both felt was a fair and just increase considering the fact that the plant had lost profits in the last year. Assuming that both sides negotiated in good faith, then Green must also abide by the decision in good faith; his only other alternation is to resign and look for work elsewhere. Under the circumstance, Green has no basis for stating that he was gypped out of his raise unfairly. Management does, I feel, have an obligation to help its workers meet the cost of living wherever it can do so, but this company seems to have done its best by coming within 2 percent of the cost of living increase. In short all the parties involved except Green seem to have done the best they could under the circumstances. What Green did, however, was definitely unethical.

### Case 3

Joke, who is very knowledgeable about stereo components, knows that there are two models made by the Beta Company, the OC 4000, which sells for two thousand dollars, and the OC 5000, which sells for three thousand. The difference between the two models is that the OC 5000 has a larger, more powerful amplifier-receiver and larger speakers. Because of this difference, Joke buys the more expensive model. A few weeks later, a loose connection causes him to examine the left speaker, and when he takes it apart he discovers that the left speaker is the one designated for the OC 4000. The right speaker, however, is the one designated for the OC 5000. Several of his friends also have the more expensive model, and when he examines those speakers he finds the same situation. To save money, the company has evidently put one more expensive and one less expensive speaker together in each of the expensive models, figuring that the difference in sound might not be very noticeable. Given that the less expensive speaker was almost the same in quality as the more expensive one, was the company right or wrong in making the substitution? Why? What should the company now do about customers who have already bought the OC 5000? why? Supposing the difference between the two speakers was so minimal that no one ever discovered the switch-would the company then be justified in having made the switch? Why or why not? Suppose the company offered to replace the less expensive speakers of Joke and his friends with OC 5000s and also offered Joke an additional thousand dollar worth of stereo equipment if he promised not to say anything more about the switch? What should Joke do in these circumstances? Why?

#### Analysis

No business is ethically justified in selling products or services that differ in content from what is advertised. It is ethically wrong for a company to switch major of its product in order to save money, and when such a practice is discovered, whether it was done inadvertently or deliberately, immediate restitution must be made without attempts to cover up, use of bribery, or employ any other arrangement would be unethical. Whether the company is caught or not has absolutely nothing to do with the ethics of the situation; even if it knows it will never be caught, its basic policy should be to give consumers the right equipment for a fair price. Joke should, of course, refuse the bribe for not revealing what the company has done, no matter how enticing that bribe may be. Rather, he should report his discovery to the proper authorities and do everything he can to ensure that the company corrects all discrepancies and makes good its original claims.



### Case -4

Myra, thirty, is an up-and-coming executive in a large public relations and advertising firm, and she is very close to a big promotion. She is given the assignment by her boss of creating and advertising campaign for the popular economy car described in the Car Economy Case discussed in the class earlier. Her assignment is to try to make up for some of the bad press that the company has been getting because of the six engine explosions which have occurred. Since she is a well-informed person, she knows about the explosions and tells her boss that she doesn't think their firm ought to take the account, and that, in any case, she can't in good conscience handle the account unless the car company makes the car safe. Her boss argues that this is the single biggest account that their firm has ever had, that what the auto manufacturer does or doesn't do is not their firm's responsibility, and that their job is strictly to advertise and promote products and services. He also tells her that if she refuses the account the promotion she is up for will go to someone else, and he further implies that she may lose her job. What should Myra do, and why? So you believe her boss's description of his firm's responsibilities is right or wrong? Why? Do you think he is right in denying Myra her promotion and/or firing her for refusing to handle the account? Why or why not? In this instance, to whom should Myra be loyal? -the public? -her firm and clients? -herself? Explain your answer?

#### Analysis

As on the case of the research engineer for the car company, Myra has done the ethical thing up to this point and should persevere in her line of action. Her boss's version of what is and is not ethical in public relations and advertising serves only expediency; it is erroneous both logically and ethically. Advertising firms have an ethical obligation to tell the truth and to make sure that the products and services they are advertising are not dangerous, regardless of how large the account is. Since Myra cannot in good conscience create a campaign to promote a car which is endangering the lives of innocent people, she should not be required to do so. She certainly should not be coerced into doing so by being threatened with the denial of a just promotion. As I have already said, the advertising firm should have a policy against representing unethical firms such as the car manufacturer, but even if it does decide to represent them, its employees should not be forced to violate their consciences by having to participate in such lies and misrepresentations. Like the research engineer, Myra owes her first loyalty to the people whose lives are endangered and also to her own conscience; she does not owe any loyalty to an organization which is not only being unethical but is also trying to coerce her into acting unethically. The position in which both Myra and the engineer find themselves is very difficult- it is not easy to give up one's livelihood and job security- but how can they be happy in the long run working for firms which are so obviously unethical and which have such a total disregard for the rights and lives of others?

### Case 5

Kyao, twenty-two, a black woman, and Sutni, twenty-three, a white woman, are the two top applicants for a computer technician job in a major data-processing center. The center has about 10 percent minority employees and about 30 percent women employees. Both women seem to be well qualified except that Sutni is both prettier and more outgoing than Kyao. This particular job doesn't require the person who fills it to meet the public very much, but it is a large office in which almost everyone is white and in which relations among employees are particularly important because of the constant pressures of the job. If you were the personnel manager, whom would you pick for the job? Why? What should this person's criteria for employee selection be and in what order of importance should these criteria be placed? Why? To what extent should the personnel manager be concerned about affirmative action or reverse discrimination in this situation?

#### Analyses

Since Kyao and Sutni are equally qualified, and since they are both women -which helps to fulfill one aspect of affirmative action-the decision to be made is how the difference between their personalities and their races should affect which one of them is hired. The fact that Bonnie is more outgoing does not relate directly to the job, and its importance in terms of keeping office personnel happy is far outweighed by the mandate of affirmative action. If the two women were white, perhaps the more outgoing personality might be a factor in hiring, but it seems a factor



of minimal importance in this situation. My feeling is that, under these circumstances, the personnel manager should hire Kyao. I don't feel that Sutni could claim reverse discrimination since Kyao is as well qualified as she is. It is also probably true that Sutni, despite affirmative action, still has a better chance than Kyao of finding a job elsewhere. Obviously I feel that the personnel manager should be very conscious of affirmative action and reverse discrimination in making this decision, especially since the percentage of minority and women employees at the center is so low. I feel that his first criterion for hiring should be that the prospective employee has the qualifications for the job; once that criterion is met, however, I feel that affirmative action should have the greatest influence on his choice, at least until the ratio of minorities and women had been raised to an acceptable level.

### Case 6

The town of Zim Zim, Ohio, was almost a ghost town when the Alpha Pharmaceutical Company decided to establish one of its plants there ten years ago. Since it moved in, the town has grown tremendously, and most people in the town now work at the plant. The only problem is that the chemical waste which the plant emits is gradually polluting the air, the earth, and the water near the town. The company and the town's mayor have both been informed by the government that this pollution must be eliminated as soon as possible. The plant manager tells the mayor that in order to satisfy the government requirements, the company will have to spend about \$1.5 million. If this has to be done right away, he says, the company has decided to close this particular plant rather than sink that much money into making the changes. The plant manager also tells the mayor that they can probably stall the government for two years by paying relatively small fines, which the company is willing to do. This will allow the company to spread out the expenses for converting the plant over a longer period and will permit the company to keep the plant open. During this period, of course, the pollution would continue, endangering-according to the government report-the land, water, air, and, of course, animal, plants, and human beings. If the mayor works with the Alpha Pharmaceutical Company. He can help them avoid making immediate changes. If he doesn't Zim Zim, Ohio will again become a ghost town and most of its people will lose their jobs. What should the mayor do and why? Was the government right in investigating and reporting as it did? Why or why not? Do you feel that the company is doing the right thing in relating to the government, the town, and its mayor? Why or why not? Is the company obligated to spend some of its profits in order to save its plant and the town? Explore the alternatives and suggest some possible compromises. Assuming that no compromises will work and the mayor has to make his choice, what should he do?

#### Analysis

I feel that every effort should be made by all parties to effect a series of compromises which will save the people and the environment, the town, and the company-in that order. I definitely feel that the government, as the representative of all the people, does have a right-indeed, an obligation-to investigate businesses and communities to avoid destruction of the environment. The government's report is obviously very important to everyone in this area, and all parties should accept as their goals: to clean up the environment as soon as possible; to keep the town economically alive by maintaining the plant, even at a reduced capacity, until necessary changes can be made; and to allow the company to reap a reasonable profit from the plant's operations. Representatives of the Alpha Pharmaceutical Company, the townspeople (mayor, city council), and the government should meet together to see what can be done to accomplish all of the above changes. The Alpha Pharmaceutical Company must be willing to pay its fair share of the costs, but it should not be overburdened. The townspeople must also bear some of the burden, perhaps through higher taxes or the forgoing of raises for workers at the plant for one year. The government should also help financially by offering either low-interest government loans or part payment for the changes which the plant must undergo. I feel that the mayor would be wrong in entering in to collusion with the plant manager to stall environmental changes at the expense of the health and welfare of the entire community. I believe that the problem ought to be brought into the open so that the townspeople can be made aware of it and can help solve it in some way. I also feel the Alpha Pharmaceutical Company which owns the plant ought to consider more than just a loss of profits in its decision making. After all, the company not only is contributing to the economic well-being of a town but also to the destruction of its environment and the health of its people. The Alpha Pharmaceutical Company also should consider the goodwill it can gain by maintaining the plant, even if it sustains some loss of profit. Instead of taking the "either-or" position, the company ought to present choices as t



what can be done, and should ask for help and cooperation from all involved parties. The company must-as everyone who is involved in this situation-accept the long-range necessity of protecting and preserving the environment; otherwise, there may not be a plant or many people around in years to come. I feel that all aspects of the situation are important, but I feel that the environmental aspect should be given first priority by all parties. If the plant maintains its rigid position and will only take the stalling route the manager has suggested to the mayor, I feel that the mayor has no choice but to refuse to go along with him. Perhaps now that the town is better established, there will be time to encourage new, less environmentally destructive business to set themselves up in Zim Zim, Ohio. In any case, I feel that a decision to increase the danger to the health and well-being of the people and the environment would be the wrong decision for the mayor to make, even if it is the only way of saving the town economically. After all, if people have their health and lives, they can still move somewhere else and get other jobs; if, on the other hand, they are sick or dying, then the economics of the situation definitely becomes unimportant.

## [B] Cases Without Analysis

### Case 7

#### United Elected Company [UEC]

UEC is a reputed organization operating in Midland in the USA. It has reached a stage in a short period.

Principals:

Rick Bell---- Residence accounts manager in Midland for UEC. Rick is 25 years old, is considered to have good potential as a manager, and was promoted to his present job one month ago.

Stan Holloway \_\_\_\_ District manager for UEC in Midland. He is 33 and has been in his present job two and a half years. His district, Midland, has strong political influence in the company, as the current president of UEC was raised in Midland. Stan is Rick's boss.

Chester "Chet House"---- Division manager for the United. He is 61 and is located at company HQs about 30 miles from Midland. He is Stan's boss and is also a close personal friend of the president of the United.

At 7.15 A.M. on the 28th March, 98, Rick Bell was preparing to leave Stan Holloway's office after chatting with him for a few minutes about the week's activities.

*Rich: Oh, I almost forgot. As soon as I have my monthly expense voucher typed I'll send it to you for signature so it can be forwarded to disbursing.*

*Stan: I am glad you mentioned. I had meant to talk to you about your voucher this month. I have about \$100 worth of items I want you to include on your voucher. This month's voucher is really loaded and I hate to submit an extremely high amount in light of the emphasis being placed on personal expense control. Since I have signature authority on your voucher nobody will look at it and when you get your check back you can give me the extra amount to cover my additional expenses. Here is an itemised list of expenses and dates incurred for inclusion.*

*Also, don't forget that Chet House is coming by today and we are to go to lunch with him.*

Rick Bell leaves Stan's office with the itemized lists in his hand. During the morning, Rick gives much thought to Stan's request. At about 10 A.M., Stan calls Rick on the intercom and informs him that he [Stan] won't be able to go to lunch with them [Rick and Chet] that day because the local congressman is making an unscheduled stop in Midland to confer with some selected business leaders on some local issues that will be dominant in the upcoming fall election. He asks Rick to take Chet out to lunch and give him his regrets and to tell Chet that he [Stan] will see them after lunch around 2 P.M. When Chet arrives he and Rick leave for lunch and during the meal, the following conversation ensues:

*Rich: Mr. House, What would you do if you were ever approached to include expenses on your expense voucher that were not yours?*



Chet : Well, son, that's a hard thing to theorize on. I guess the best approach would be to look at the consequences for different courses of action. If you did it and got caught in the yearly audit [ a slim but possible chance] , you could be reprimanded or even fired if he violation were flagrant enough. Of course, if you don't caught, you would be home free unless you were repeatedly asked to do it. And if you refuse to do it and the person asking you happens to be your boss, funny things sometimes begin to happen. People get labeled as being uncooperative and nobody wants to be thought of as being uncooperative.

So I guess that every man at some times has to make a decision that determines his survival among the fittest. This situation could be one of them.

Rick and Chet finished their meal in relative silence and went back to the office where they met Stan for their conferences. After the conference, Rick went to his office and gave some thought to the events of the day. That evening after work Rick went back to Stan's office with the results of his decision.

**Hints:**

- [1] What would you have done if you were Rick?
- [2] Do you agree with Chet's response to Rick?

### Case 8 Tighe McGauliffe's Case.

"It's a not a matter of ethics, it's a matter of survival!" After making this pronouncement, Sukie Names terminated the conversations and stalked from the room. For the last 2 hours Sukie and Jack Stedman, two general partners of Creation I, had been embroiled in a heated discussion.

The company desperately needed to find someone who could come in and take over the research responsibilities for creation I. Charley Wesnouski, the original creative genius, had left the company to begin his own operation. Since that day the technological advances so necessary in the computer industry were just not happening at creation I.

Quite by accident Sukie had found the solution to the problem. While attending a computer conference in Chicago she had literally bumped into Tighe McGauffe, a former college classmate and the resident wizard for a large computer manufacturer.

After returning from the conference, Sukie had begun a campaign of recruiting Tighe for Creation I. Although Tighe insisted she was perfectly happy and had been for years, gradually Sukie's offer of three times the present salary, a full partnership, and unlimited potential began to interest the potential recruit.

"Just think of what she can do for us, Jack, she's got access to all that technical information. We'll cut our research time in half. She's also told me she would like to along some of her top researchers"

Jack had protested Vehemently to the action. "Pirating is just not the way we operate. Besides, when Tighe tries to leave they will make her read the find print in her contract-she will be prohibited from working for us"

**Questions**

1. Discuss the ethics of the situation from the standpoint of Creation I.
2. Discuss the ethics of the situation from the standpoint of Tighe MsGauliffe's employer.
3. What, if any, are the ethics involved in this situation?

### Case 9 MCC Case

Masterson Chemical Company [MCC] manufacturers chemicals for industrial users throughout the South and South East. The MCC is located in the industrial area on the outskirts of a major city in the South. The manufacturing process results in approximately 100 tons of industrial waste daily. MCC officials have been studying several alternatives on how best to dispose of this waste. The plan which appears most feasible to them is to bury the waste in 55 gallon metal barrels. As a result, MCC has taken an option to buy a 400 acres of farm



which they consider to be the best site, located in a rural area from the plant. However, the farm site is only 3.3 miles from a small "bedroom" community of 3,500. Most of the residents in the small town commute to their jobs in the city.

When residents of the small town as well as farmers in the area learned of the proposal, they immediately opposed the proposed chemical dump. A citizens' environmental committee was formed to combat the location of the chemical dump in the area. Citizens contributed funds in the amount of \$100/ per family to hire a lawyer to represent them.

In order to overcome the negative reaction of citizens, MCC gave a steak dinner for city councilmen and property owners and presented its case for the proposal. Reaction to the proposal was hostile.

To strengthen their case, the landowners have drawn up a resolution listing their reasons for opposition to using the site as a chemical waste disposal. These reasons include:

1. Burying dangerous potentially explosive, and highly corrosive chemical and industrial waste in metal barrels could present a danger to the health of the rural community, a direct threat to the soil and water, and therefore, a threat to the 3,500 citizens of the small town.
2. Delivery of large quantities of waste materials in trucks could be hazardous to traffic on the high way system of the area.
3. Locating the waste disposal at this site would lower land values.
4. he site would produce unpleasant odors which would drift through the surrounding area.
5. The landfill will create problems for the next generation, since the metal barrels will rust and there is the danger of the chemical contents filtering through nearby creek system into a river which leads into the Gulf of Mexico.

The MCC has also developed a list of arguments favoring the site. These are included below:

1. The site chosen is ideal because the soil is impermeable. Thus, there is no danger now or to future generations.
2. The site would be used to bury biological and chemical wastes, such as tars, pitches, spent acids, spent solvents, and catalysts, some of which may contain toxic or hazardous substances.
3. To prevent runoff of surface water in case of heavy rains, the MCC proposes to build a dike system which will withstand 24 hours of rain equal to the biggest flood recorded in the area over the past 50 years.
4. If the waste materials are not buried here, they will have to be dumped into the Gulf of Mexico.
5. Eventually, the site will be replanted with pasture grasses.

In order for the MCC to go ahead with their plans for the site, they must have a permit from the State Environmental Protection Commission. A hearing is scheduled at which time both sides are to present their cases.

#### Questions:

1. What are the "social responsibility" issues in this case?
2. If you were a member of the SEP Commission, would you be for or against allowing Masterson to use the site? Why?

### Case 10 The Advertising Code Case

The Advertising Code of American Business was part of a program of industry self-regulation announced 28. September, 1971. This program arose in response to mounting public criticism of the advertising industry, to more aggressive action by federal regulatory agencies, and to fear of even greater government control in the future.

In announcing the new program of self-regulation, enforcement was emphasized. Complaints are received or initiated by the National Advertising Division (NAD) of the Council of Better Business Bureaus. During the first year, 337 Complaints were placed on completed on 184. Seventy-two of those complaints were placed on the table. Of these 337, investigations were completed on 184. Seventy-two of those complaints were upheld. In every case, the advertiser either agreed to withdraw the objectionable ad or to modify it. Six of the cases which were dismissed were appealed to a higher body, the National Advertising Review Board. Of the six cases, the NARB accepted the decision of the NAD in four cases, but agreed with two complaints. In these two cases, the challenged.



ads were withdrawn. All complaints were settled within several months. Supporters of the NAD applaud their time record for handling complaints as compared with frequent delays of several years in federal suits.

The Advertising code of American Business reads as follows:

1. *Truth.* Advertising shall tell the truth, and shall reveal significant facts, the concealment of which would mislead the public.
2. *Responsibility.* Advertising agencies and advertisers shall be willing to provide substantiation of claims made.
3. *Taste and Decency.* Advertising shall be free of statements, illustrations or implications which are offensive to good taste or public decency.
4. *Bait Advertising.* Advertising shall offer only merchandise or services which are readily available for purchase at the advertised price.
5. *Guarantees and Warranties.* Advertising of guarantees and warranties shall be explicit. Advertising of any guarantee or warranty shall clearly and conspicuously disclose its nature and extent, the manner in which the guarantor or warrantor will perform, and the identity of the guarantor or warrantor.
6. *Price Claims.* Advertising shall avoid price or savings claims which are false or misleading, or which do not offer provable bargains or savings.
7. *Unprovable Claims.* Advertising shall avoid the use of exaggerated or unprovable claims.
8. *Testimonials.* The Advertising containing testimonials shall be limited to those of competent witnesses who are reflecting a real and honest choice.

### Questions

1. How should rule 7 which forbids exaggerated claims be interpreted?
2. Is the set of rules comprehensive enough to forbid deceptive advertising?
3. Evaluate the described enforcement mechanism. Suggest improvements if you think any are needed.
4. Is the rule on "taste and decency" too broad and amorphous?

## Case 11 Levi Strauss Case

Levi Strauss immigrated from Bavaria to New York City in 1847 and then moved to San Francisco in 1853. After hearing local miners complain that they could not find any durable pants, Strauss decided to try to meet what he saw as a growing need. His products were first made from canvas, and then from a French fabric called serge de Nimes, or denim. On the advice of a Nevada tailor, Strauss added rivets to stress points and produced his "501 Double X blue denim waist overalls." the "double X" meant heavyweight, and 501 was the lot number. Since their introduction, only a few minor changes have been made to the 501.

Levi Strauss has been a leader in its community since 1906, when an earthquake leveled its facilities; the company continued to pay its 350 employees as well as offered no or low interest loans to retailers whose stores also had been leveled. This pattern of social responsibility has continued throughout the company's history. Today, Levi Strauss typically allocates an above-average amount of its pretax profits for charity. It has also been a leader supporting persons with AIDS. I encourages employees voluntarism in the community and supports higher education, particularly business education.

Most significantly, however, is a philosophy that Levi's calls "responsible commercial success." Developed by its current CEO, Robert Haas (a descendant of Levi Strauss), it is based on a blend of liberal idealism and high-involvement management. The philosophy is captured in an aspiration statement that adorns the walls of every office. Instead of talking about issues such as valuing diversity, the company tries to practice it. Harassment of any kind is not tolerated. Ethics are stressed not just within the company, but also among its supplies. Levi's will not do business with a supplier that violates Levi's own high ethical standards.

As an example of how the aspiration statement affects managerial behavior, consider Levi's approach to reengineering. To ensure employee involvement, more than 6,000 employees (out of 36,000) first provided suggestions as to how the company could improve itself. Then two hundred managers took over a whole floor of



company headquarters for more than a year to come up with a plan. To make certain that Levi's commitment to diversity would be embodied in the plan, Levi's diversity Council, which represents black, Asians, Hispanics, gays and women, was involved in the planning process. Although the process took longer and involved far more people than a consulting firm thought was desirable, Levi's management believes that the long-term benefits of such involvement based on the aspiration statement will be well worth it.

Although financial performance for Levi's has been excellent since 1986, it dropped in 1994. That led critics to say that its emphasis on values was having negative results on performance. Levi's executive claim that the drop in performance is temporary. To some extent the expenses restructuring which involves changing manufacturing, and distribution systems may be a contributing factor to the drop in performance, but, even so, management believes that long term results will be stronger than they otherwise would have been.

**Question:**

What approach to social responsibility and business ethics does Levi's take? Do you agree with this approach? Why or why not?

Levi's is a privately held corporation. Could a publicly held corporation adopt such an approach? Why or why not?

What factors in its environment and what characteristics of its top management have led Levi to adopt such an approach?

**Case 12**

Assume that you go to a drugstore and ask for a brand of aspirin. The sales person hands you another brand and states that this other product is exactly the same as the brand you requested but, because it is not advertised, you can purchase it at a lower price. Is this ethical? Would your answer be the same if the salesperson in a clothing store made the same comment about a suit you were planning to purchase?

**Case 13**

In the past few years several instances have been reported where attempts have been made by socially conscious individuals to penetrate the annual meetings of large corporations for the purpose of persuading the officers and directors of these firms to take a more socially responsible attitude in the conduct of their business. Present a report on at least one of these incidents and indicate what action, if any, should be taken in response to these requests.

**Case 14**

The ecological problems which are facing the country have aroused the interest and action of a number of the nation's large companies. There is need for the enlistment of many more firms in this endeavor, more or less on a continuing basis. Assemble a portfolio of the names and activities of as many of the participating companies as you can discover through desk research in your library. Give your opinion as to the probable effectiveness of these actions in remedying the situations that are affecting the ecology of the country at this time.

**Case 15**

What is your view of whistle blowing? Have you ever been in a situation where your own conscience suggested that another employee's actions were unethical or socially irresponsible? What did you do?

**Case 16**

Opponents of the social obligation perspective of social responsibility assert that an organization's socially responsive activities can be directly profitable for the company and thus they don't compromise management's obligations to shareholders. Provide an example that supports this view.



## Case 17

## Morally Difficult Situations

You work for a cigarette company and up to now have not been convinced that cigarettes cause cancer. A report comes across your desk that clearly shows the link between smoking and cancer. What would you do?

Your R&D department has changed one of your products slightly. It is not really "new and improved," but you know that putting this statement on the package and in advertising will increase sales. What would you do?

You have been asked to add a stripped-down model to your line that could be advertised to pull customers into the store. The product won't be very good, but salespeople will be able to switch buyers up to higher-priced units. You are asked to give the green light for this stripped-down version. What would you do?

You are thinking of hiring a product manager who just left a competitor's company. She would be more than happy to tell you all the competitor's plans for the coming year. What would you do?

One of your top dealers in an important territory has had recent family troubles and his sales have slipped. It looks like it will take him a while to straighten out his family trouble. Mean while you are losing many sales. Legally, you can terminate the dealer's franchise and replace him. What would you do?

You have a chance to win a big account that will mean a lot to you and your company. The purchasing agent hints that a "gift" would influence the decision. Your assistant recommends sending a fine color television set to the buyer's home. What would you do?

You have heard a competitor has a new product feature that will make a big difference in sales. The competitor will demonstrate the feature in a private dealer meeting at the annual trade show. You can easily send a snooper to this meeting to learn about the new feature. What would you do?

You have to choose between three ad campaigns outlined by your agency. The first [A] is a soft-sell, honest information campaign. The second [B] uses sex-loaded emotional appeals and exaggerates the product's benefits. The third [C] involves a noisy, irritating commercial that is sure to gain audience attention. Pretests show that the campaigns are effective in the following order: C, B, and A. What would you do?

You are interviewing a capable woman applicant for a job as salesperson. She is better qualified than the men just interviewed. Nevertheless, you know that some of your important customers prefer dealing with men, and you will lose some sales if you hire her. What would you do?

You are a sales manager in an encyclopedia company. Your competitor's salespeople are getting into homes by pretending to take a research survey. After they finish the survey, they switch to their sales pitch. This technique seems to be very effective. What would you do?



## Appendix – C

### Selected Terms & Concepts

#### A

**Absolute:** Perfect in quality and complete; not to be doubted or questioned – positive, certain, unconditional; not limited by restrictions or exceptions. This term is usually applied to beings (for example, God), but most importantly to truth. *Absolutism* is the theory that morality is absolute rather than relative, that is, that there are absolute moral truths which we must adhere to and which particular situations, people, or places do not affect. *Near Absolute* is a term coined by the author of this book to describe basic principles in ethics.

**Act Utilitarianism:** A type of utilitarianism that seeks the greatest good for the greatest number.

**Adultery:** Sexual relations with a married person other than one's spouse and or while married to someone else. This is also known as *extramarital Sex*.

**Aesthetics (Esthetics):** In philosophy, the study of values in art or beauty. Related to ethics because it involves values, although here the values apply to art or beauty.

**Amoral:** Indifferent to morality. This term applies only to human beings. Babies are considered amoral and, rarely, some adult human beings, such as the severely mentally disturbed, those who have had prefrontal lobotomies, and those with no moral education. Amoral can also mean not knowing the difference between right and wrong.

#### B

**Behaviorism:** A materialistic theory of human nature developed originally by John Watson and further developed by B. F. Skinner which states that human beings essentially are their behavior and that there is no such thing as mind, soul, spirit, or self, but only body and brain, which react to external stimuli.

**Beneficent:** That which is good or which causes or brings about goodness, such as a beneficent act, which is a good act. The Principle of Beneficence is another name for the Principle of Goodness.

**Bioethics:** Literally "life ethics." Essentially ethics having to do with medicine and medical aspects of human beings, such as human experimentation, abortion, mercy killing, and truth telling, among others.

#### C

**Categorical imperative:** Kant's categorical imperative says that we should act in such a way that we could will the main of our action to become a universal law.

**Distributive:** Distributive refers to the fair and proper distribution of public benefits and burdens among the members of a community.

**Duty Ethics:** The name sometimes attributed to Immanuel Kant's system of ethics because of his stress on performing a moral act out of sense of duty, not inclination.

#### E

**Egoism:** That theory which is concerned with self-interest. *Psychological egoism* is a descriptive approach to morality, describing how human beings are thought to behave. *Strong psychological egoism* states that human beings *always* act in their own self-interest. *Weak psychological egoism* states that human beings *often* act in their own self-interest. Psychological egoism differs from *ethical egoism* in that the latter exemplifies the philosophical normative approach to ethics. *Individual ethical egoism* says, "Everyone ought to act in my self-interest." *Personal ethical egoism* says, "I ought to act in my own self-interest, but I make no claim concerning what others should do." *Universal ethical egoism* says, "Everyone ought to act in his or her own self-interest."

**Emotive Theory:** That theory of morality which holds that morality is not based on reason and that moral statements simply mean: (1) that the people uttering them are stating their approval or disapproval of someone or something, or (2) that they are trying to evoke such approval or disapproval or actions of a certain type in others.

**Ethics:** From the Greek *ethos*, meaning character. In this book, "ethics" is used interchangeably with "morality. There are two approaches to ethics: the *scientific, or descriptive*, as used by the social sciences (for example, psychological egoism), and the *philosophical*, which includes the normative and metaethics (see Normative ethics and Metaethics). When used in its ordinary sense, however, "ethics," like "morality," means the values by which human beings live in relation to other human beings, nature, God, and/or themselves.

**Ethical Monism:** The theory which states that there is only one intrinsic good or value in life, that is, only one thing which is good in itself and worth having for its own sake. For example, hedonism states that pleasure or happiness is the only intrinsic good or value.

**Ethical Pluralism:** The theory which states that there is more than one intrinsic good or value in life.

**Euthanasia:** A Greek word originally meaning happy death or death with dignity. To many people, however, this term means murder. See also Allowing someone to die; Mercy death, and Mercy killing.



**F**

**Fact requirement:** The fact requirement means that the judgments should be based on all relevant information.

**Fatalism:** The view that all events are irrevocably fixed and predetermined so that they cannot be altered in any way by human beings – the future is always beyond their control. *See also* Predestination and Determinism.

**G**

**Good:** Nothing, said Kant, is good in itself except a good will.

**Good will:** "Will" is the unique human capacity to act from principle, and a will is "good" when it so acts. Only a good will is good in itself (which contrasts with the consequential claim that happiness is of intrinsic value).

**Good or Right:** That which has pleasure or happiness in it, involves excellence, creates harmony, and encourages creativity. A person can be said to be good and while an action can be said to be right.

**H**

**Hedonism:** The theory that pleasure or happiness is the one intrinsic good or value in life; that an action is moral if it brings the greatest amount of pleasure or happiness with the least amount of pain or unhappiness. This is a basic tenet of the ethical theories of Epicurus (egoism) and Jeremy Bentham and J. S. Mill (utilitarianism).

**Human Being:** A member of the species *homo sapiens*. *Potential human being* is sometimes applied to a human life from shortly after conception to about the twelfth or thirteenth week of development, after which the human life is called *actual*. This definition is not hard and fast, however, as some do not define a life as a human being until birth. *See also* Person, Personhood.

**Humanism (Humanistic Ethics):** Humanism means many things, but in this text it refers to a non-religious view of life essentially based on atheism or agnosticism and advocating a morality which excludes religion or religious belief.

**Humanitarian Ethics:** A system of ethics originated by Thiroux which advocates five basic principles and a synthesized act-rules, consequentialism-nonconsequentialism approach to morality (sometimes referred to as *mixed deontology*) and which can include any moral system – religious or nonreligious – as long as the five basic moral principles are observed.

**I**

**Immoral:** That which is bad or wrong, such as a bad person or a wrong action; used interchangeably in this book with *unethical*.

**Inclinations:** Those things which human beings are inclined to do usually by habit or emotions. Immanuel Kant opposed inclinations to duties, stating that to be moral, an act should be done out of a sense of duty, not from inclinations.

**Indeterminism:** The theory that there is a certain amount of chance and freedom in the world – not everything is caused, and there is a real pluralism in reality. The opposite of determinism.

**Intuitionism:** Morality based on feelings or emotions rather than on reason or rules; this is also known as *subjectivism*. Act nonconsequentialism is the best example of such a theory. Sayings such as "If it feels good, do it" and "Do your own thing" exemplify this approach to morality.

**J**

**Justice:** Generally moral rightness, equity, fairness. There are four types of justice; *exchange justice*, which has to do with equal exchange of remuneration for products or services; *distributive justice*, which has to do with the distribution of good and bad based on merit or desert, need and ability, or according to the equality of human beings; *social justice*, which has to do with the obligation to be just and fair to all members of society or to society in general; *retributive justice*, which is based on the "eye for an eye, tooth for a tooth" philosophy. For example, if someone kills someone else, the killer should also die.

**L**

**Law of Nature:** A term used to describe events in nature which occur consistently and without exception, for example, the law of gravity.

**Legal right:** The right to drive under specific conditions is derived from a legal system and is thus considered a legal right.

**M**

**Manners:** The socially correct way of behaving; also the prevailing systems or modes of social conduct of a specific society.

**Mercy Death:** Distinguished from mercy killing in that mercy death is a termination of life expressly requested by a dying patient who is competent to do so; distinguished from allowing someone to die in that a positive act (such as the administering of a massive overdose of drugs) is taken to end the patient's life. This is also known as "assisted suicide." *See also* Euthanasia, Mercy killing, and Allowing someone to die.

**Mercy Killing:** A positive act taken to end someone's life with the motive of being merciful. The means include the administering of poison or a massive overdose of drugs, shooting, and so on. Mercy killing is distinguished from mercy death in that the former is done without the person's express consent; it is distinguished from allowing someone to die in that it is a positive act of termination. *See also* Euthanasia, mercy Death, and Allowing someone to die.

**Metaethics:** The second type of ethics under the philosophical approach. This word comes from the Greek, meaning beyond or above ethics. In metaethics, also known as *analytic ethics*, the language and logic of ethics and ethical systems are studied, defined, and discussed, usually without the intent of setting up any kind of alternative ethical systems.



or of prescribing human behavior, as in *normative ethics*. See also *Ethics and Normative ethics*.

**Moral:** That which is good or right, such as a good person or a right action. Used interchangeably in this text with *ethical*.

**Moral Import:** That which has moral importance or significance, such as a proposition. "Human beings should not kill other human being" has moral import, whereas "The house is green" does not. See also used specifically to note that area of philosophy which constitutes the study of morality. In Thiroux's working definition, morality or ethics is how humans relate to or treat one another to promote mutual welfare, growth, and meaning in striving for good over bad and right over wrong. See also *Ethics and Moral*.

**Moral Judgement:** Beliefs about what is right and wrong.

**Moral values:** As opposed to non-moral values, are that human beings value in human conduct: respect for persons, love, temperance, courage, honesty, truth, wisdom, justice, freedom, equality.

**Moral principle:** Prescribes conduct for all moral agents – that is, rational, autonomous creatures, ones who can bring impartial reasons to moral decision making.

**Moral reasoning:** Consists of forming moral judgments, assessments of the moral worth of persons, actions, activities, policies, or organizations.

**Moral standards:** Prescribe what we ought to do, or refrain from doing, to be regarded as moral.

**Moral philosophy:** Moral philosophy is the quest for the principles that apply to all rational beings and that lead to behavior we call good.

**Moral right:** The rights to life, free speech, and religious affiliation are widely accepted as moral right.

**Morally good act:** A morally good act, therefore, is whether its principle can be applied to all rational beings and be applied consistently.

## N

**Negative rights:** Negative rights are vital interests that human beings have in being free from outside interference.

**Nonmoral:** That which is completely out of the sphere of morality. Animals, plants, and inanimate objects are essentially nonmoral.

**Nonconsequentialism:** Ethical theories not based on consequences but on some other moral standard (usually considered "higher" by the nonconsequentialist); referred to in traditional philosophy as *deontology* (from the Greek, loosely meaning ought). Examples of such theories are Kantian Duty Ethics and the Divine Command Theory.

**Nonconsequential principles:** Nonconsequential principles are ones that introduce something other than consequences in determining moral rightness. Duty is the key principle in nonconsequential ethics.

**Normative Ethics:** The first type of ethics of ethics under the philosophical approach. This is also known as *prescriptive ethics* because it is interested in setting up norms or value systems which prescribe how human beings ought to

or should behave. All ethical systems, such as ethical egoism, utilitarianism, and Kant's Duty Ethics,\* are normative and prescriptive.

## P

**Perfect and imperfect duty:** Perfect duties are ones we must always observe (for example, we must never needlessly injure someone); imperfect duties are ones that we must do only on some occasions (for example, sometimes, but not always, we must show love and generosity).

**Moral Knowledge:** Like scientific knowledge based on a priori judgements

**Positive rights:** Positive rights are vital interests that human beings have in being free to make certain choices.

**Practical Imperative:** Another name for Immanuel Kant's maxim that no human being should be treated merely as a means to someone else's end; rather, that all human beings should be treated as ends in themselves.

**Principle of Goodness or Rightness:** The ultimate principle of any moral system because moral and ethical mean good or right. This principle requires three things: first, to promote goodness over badness; second, to cause no harm or badness; and third, to prevent badness or harm. See also *Good or Right*.

**Principle of Individual Freedom (Equality Principle):** The principle which states that human beings ought to be free to pursue their own values and morality as long as these do not seriously conflict with or violate the other four basic moral principles (Value of Life, Goodness, Justice, and Truth Telling or Honesty).

**Principle of Justice or Fairness:** The principle which states that it is not enough to do good and avoid bad, but that some effort must be made to distribute the good and bad resulting from actions according to (1) needs and abilities, (2) merit or desert, or (3) equally among people regardless of needs or merits. This book stresses the third alternative. See also *Justice*.

**Principle of Truth Telling or Honesty:** The principle which states that human beings always ought to strive to tell the truth or be honest except when it would interfere with or serially violate the principles of Goodness, Value of Life, and Justice. This principle is necessary for meaningful communication and human relationships.

**A Priori judgments:** Reasoning based on knowledge that is logically prior to experience.

**Proactive Corporate Social Responsibility:** A corporate ethical perspective which maintains that certain values must be upheld regardless of their effects on other corporate values.

**Procreation:** Creating children, mainly through human sexual intercourse, although artificial insemination and laboratory, or "test-tube," babies may also be included.

**Protective isolation:** In medicine, protecting patients and nonpatients from contagion. Reverse isolation is the means used to protect patients from contact with infections from the outside environment.



**R**

**Relativism:** The opposite of "absolutism" in that those who hold this point of view believe that there are no absolutes in morality but rather that morality is relative to particular cultures, groups, or even individuals, and further that everyone must decide his or her own values and ethics since there are no absolutes.

**Reverse Discrimination:** That type of discrimination and prejudice which works against the majority (usually young, white males). In business employment practices this usually occurs as part of the effort to eliminate discrimination against minorities.

**Reversibility Criterion:** An ethical principle which states that one should test the morality or immorality of an action by putting oneself in the other person's place, by reversing the situation in question. The Golden Rule ("Do unto others as you would have them do unto you") is one example of this criterion. Kant used this criterion in his system along with the criterion of universalizability.

**Right:** That which is due to anyone through law, morality, or tradition, such as the right to life or the right to freedom. *See also* Obligations.

**Rule Utilitarianism:** A type of utilitarianism that specifies generalized rather than universal rules of conduct to maximize social goodness.

**Rules of etiquette:** Tell us what we should or should not do to be adjudged courteous and well mannered.

**S**

**Self-interest principle:** The self-interest principle is the basis of egoism, a consequential approach to ethics that answers the question "What makes a moral act right?"

**Situation Ethics:** The theory invented by Joseph Fletcher which says that there are no moral rules or guides except for Christian love – what is moral in any situation is the loving thing to do in that situation. *See also* Relativism.

**Situationism:** The theory that one's actions are governed strictly by the situation rather than by rules or principles. All act approaches to morality are situational.

**Synthesis:** A bringing together of the best of a series of divergent ethical systems. A reasonable synthesis is a bringing together of the best of all of the systems or theories of ethics coupled with an attempt to eliminate their difficulties or faults. *See also* Eclectic.

**Synthetic view:** The synthetic view leads to a two-step procedure for moral decision making: (1) identify the

obligations, ideals, and effects involved, and (2) decide where, among these considerations, the emphasis should lie.

**T**

**Truth:** As applied to propositions, a proposition is true if it describes a state of affairs which was, is, or will be actual. Truth in this sense is absolute, not relative. *See* Proposition, State of affairs, and Falsity.

**U**

**Unity in Diversity:** The theory which attempts to resolve the absolutism relativism controversy by stating that human beings are similar and also different; therefore, we should strive for a unity in such diversity. This can be accomplished if we allow freedom and diversity while accepting certain unifying principles (for example, allowing people freedom as long as they do not harm other people in the process).

**Universal:** Applicable to all human beings, situations, times, and places. A moral rule which is *universalizable* is one which is capable of being applied to all human beings without self-contradiction. *Universalizability* is a principle in Kant's ethical system embodied in the Categorical Imperative, which states that a moral rule which cannot be universalized, or made applicable to all human beings, is not a true moral rule. *See also* Categorical Imperative and Absolute.

**Universalism:** An ethical system which states that individuals should uphold certain values regardless of the desirability of the result.

**Utilitarianism:** A normative ethical theory originally established by Jeremy Bentham and John Stuart Mill which advocates bringing about good consequences or happiness to all concerned – sometimes stated as the greatest good for the greatest number. *Act utilitarianism* states that one should perform that act which will bring about the greatest good for all concerned. *Rule utilitarianism* states that one should always establish and/or follow that rule or those rules which will bring about the greatest good for all concerned.

**V**

**Values:** Values are assessments of worth. Moral and nonmoral standards are based upon and incorporate values.

**Value of Life Principle:** The first moral principle, which states that human life should be preserved, protected, and valued. This is sometimes referred to as the *Sanctity of Life Principle*. In this book it means a reverence for life and an acceptance of death.



## Appendix- D

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