

# **Instructor’s Manual**

## **Chapter 1 Ethics Expectations**

|                                                             |    |
|-------------------------------------------------------------|----|
| Learning objectives .....                                   | 2  |
| Possible teaching approaches, using cases and readings..... | 2  |
| Answers to questions for discussion.....                    | 3  |
| Case Notes.....                                             | 6  |
| Multiple Choice Questions.....                              | 38 |

## COMMENTARY ON CHAPTER 1: ETHICS EXPECTATIONS

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### Learning Objectives

Chapter 1 is designed to provide the reader with an analysis of:

- a) developments that have changed and are changing the ethical expectations for business, and the accounting profession,
- b) resulting expectations for accountability, governance and fiduciary duty,
- c) basic concepts in business ethics, stakeholder accountability, reputation, and risk management,
- d) implications for corporations, directors and executives, and
- e) for professional accountants.

The underlying purpose involved is to sensitize the reader to ethical issues, to provide an overview of the rest of the book, and of the newly emerging framework for modern accountability and governance to which business and its related professions will be expected to adhere.

Key learning points to be developed include:

- ethical issues are pervasive,
- ethics and reputation are inter-related,
- success depends upon maintaining the support of stakeholders through the preservation of trust based on credibility and respect (elements underlying reputation),
- accountability, and the governance mechanisms to achieve success, should be directed at maintaining reputation and the support of stakeholders in the medium- and long-terms as well as the short term, (These mechanisms should not be directed solely at the earning of short-term profit as many misinterpret Milton Friedman to have said)
- recent governance failures resulted from directors, executives and professional accountants serving themselves to the detriment of other stakeholders and the public interest,
- increased regulation and loss of mandate has resulted and will result from such failures, and
- due diligence and proper discharge of fiduciary duty requires the inclusion of ethics concerns in risk management processes.

### Possible teaching approaches, using cases and readings

Usually I lead off with a case such as *Betaseron A*, *China's Tainted Baby Milk Powder*, *Union Carbide-Bhopal*, or *Martha Stewart* that do a great job of making the class aware that ethics issues are pervasive, and start the class thinking about ethics and ethical issues. This warm-up is very helpful in developing the discussion dynamic in the class, which is conducive to the sharing of personal ethical values between classmates. Over time, I have found this sharing to be the

most effective way to make the class sensitive to the ethical views of others - an approach which is essential to the effective use of stakeholder impact analysis as a decision making tool.

The cases offer the opportunity to explore the basic concepts outlined above, the global ethical perspective that corporations need to develop, the problems associated with believing that: "if it legal, it's ethical", and many other issues as our outlined in the case notes which follow. After the case discussion is over (it takes 30-40 minutes), I use overheads located on my website at [www.cengage.com/accounting/brooks](http://www.cengage.com/accounting/brooks) to cover the highlights of the chapter.

The contribution of each reading is outlined in the chapter. Lynn Sharp Paine's article is a classic – a must read for everyone seeking to understand the direction that business strategy and management must go. . Andrew Singer's article on whistle-blowing is an eye-opener to readers who are risk averse, and signals how important the development of a trust-based internal corporate culture will be in the future. The Caremark National case is a must read for old-line "hear no evil, see no evil" managers and directors, because it signals that ostrich-like behavior on the part of directors was inappropriate even before the Sarbanes-Oxley Act (SOX) of 2002 forced changes.

The questions for discussion are ones I use to provoke thought on the chapter.

### **Answers to questions for discussion**

1. Why have concerns over pollution become so important for management and Directors?  
Because the public perceive that our environment is finite and that our well-being is threatened. In turn they have influenced politicians to enact tougher laws and heavier penalties... up to \$2 million/day, with the prospect of personal liability and jail. In addition, U.S. courts have agreed to hear lawsuits brought by foreigners for pollution on foreign soil (see Texaco: The Ecuador Issue). Finally, pollution can erode the trust necessary to preserve stakeholder support, and this will be seen by stakeholders with negative consequences in consumer and capital markets.
2. Why are we more concerned now than our parents were about fair treatment of employees?  
Our social consciousness is higher due to the reasons listed in Ch. 1.
3. What could professional accountants have done to prevent the development of the *credibility gap* and the *expectations gap*?  
See the discussion on the Treadway, Metcalf and Macdonald Commissions. Also see Arthur Andersen's Troubles case in Chapter 2.
4. Why might ethical corporate behavior lead to higher profitability?  
Because attention to ethical concerns can keep corporations out of costly problems such as clean-up of pollution problems, fines, low morale, and loss of reputation and stakeholder support; and it can open up profitable opportunities such as developing green product lines.

5. Why is it important for the clients of professional accountants to be ethical?  
Because auditors don't check 100% of all transactions, and even if they did there would be conflicts of interest and other hidden issues which would be found only by fluke, making sure that clients are ethical provides assurance that they will not be hiding things from the auditors or engaging in unethical activities. The value of the auditor's opinion depends upon it.
6. How can corporations ensure that their employees behave ethically?  
By developing ethical corporate cultures based codes of conduct in place to provide guidance, training to provide awareness, understanding, monitoring to assure compliance, and rewards or sanctions to reinforce the desired behavior. Also, the top executives should set the best example possible.
7. Should executives and Directors be sent to jail for the acts of their corporation's employees?  
Yes, if they executives and Directors act negligently or without engaging in due diligence procedures which are designed to ensure that reasonable and proper actions are taken.
8. Why are the expectations of a corporation's stakeholders important to the reputation of the corporation and to its profitability?  
Without the support of key or primary stakeholders such as customers and employees the sustained profitability is not possible. A corporation's reputation is based on the elements that such stakeholders find relevant to their support, including: credibility, reliability, trustworthiness and the taking of responsibility.
9. How can a corporation show respect for its stakeholders?  
By taking their interests into account (respecting them) when making decisions.
10. How can conflicts of interest between stakeholders be resolved by a corporation's management?  
By displaying sensitivity to each side, ranking the interests involved and using this ranking to favor the most important as is discussed in Chapter 6.  
Stakeholders should be made aware of the ranking and decision process where possible. In the end, tough trade-off decisions may be involved, but stakeholders should have confidence in the process.
11. Why are philosophical approaches to ethical decision making relevant to modern corporations and professional accountants?  
The philosophical approaches to ethical decision making (utilitarianism, deontology, and virtue ethics) are relevant because of the greater and growing ethical awareness, sensitivity and power of stakeholders that can make a difference to the reputations and fortunes of companies and of professional accountants. Their support is needed now more than ever.

12. What are the common elements of the three approaches to ethical decision making which are briefly outlined in the chapter?  
The common elements are measures of well-offness, fairness, right(ness), and virtues expected.
13. Is a professional accountant a businessperson pursuing a profit or a fiduciary that is to act in the public interest?  
Both, but when there is a conflict between these roles, the professional accountant must place fiduciary duty above personal profit. Otherwise the public interest will not be protected (which is the primary goal of a professional – see later chapters for discussion).
14. Why is it important for a professional accountant to understand the ethical trends discussed in this chapter?  
So that the expectations for business can be understood and advice given or actions screened with regard to what might be acceptable and desirable, now and in the future with regard to operations as well as financial matters. Also, the accounting profession is subject to the same set of expectations, and is expected to rise to higher standards of performance than business.
15. Why should a professional accountant be aware of the Ethics Code of the International Federation of Accountants (IFAC)?  
Because the IFAC Code is the newly defined standard to which all IFAC members including the AICPA, CICA and ICAEW, IMA and SMAC have pledged to harmonize their Codes to during the next 5 years. The IFAC Code contains the common elements to which all professional accountants will adhere.
16. Why is an ethical corporate culture important?  
An ethical corporate culture is considered to be one of the most important aspects by which behavioral guidance in the form of corporate policies and compliance therewith can be passed on to employees and agents. Developing and maintaining an ethical corporate culture is now an expected facet of good governance, and therefore part of what directors and senior executives must ensure as part of their responsibilities and duties.

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## CHINA'S TAINTED BABY MILK POWDER: RUMORED CONTROL OF ONLINE NEWS

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### What this case has to offer

This case offers the opportunity to review many of the main issues in the chapter. It presents two instances of unfettered profit-only behavior:

- Unknowing or uncaring manufacturing profiteers who:
  - misrepresented a very harmful ingredient, and
  - others who included that ingredient in their product,that led to life-threatening consequences for other stakeholders and an erosion of the reputation of the companies involved, and
- Baidu.com, the Chinese equivalent of Google, being suspected of:
  - misrepresentation of the information it provides by allowing companies to buy a priority place in frequency listings, and
  - screening out unflattering news on companies that pay for that service,that also led to a serious erosion of public confidence in Baidu.com and threats to its profitability and its ability to operate.

Consequently, the case offers the opportunity to review:

- the limits and consequences of profit-only thinking, and the need for balance with stakeholder interests;
- the importance of reputation based on ethical behavior – particularly its trust components – how it can be lost, and the consequences;
- the need for constant skepticism and challenge even when dealing with people or companies you think can be trusted;
- how difficult it is to restore trust and reputation, and how to do it.

### Teaching suggestions

It is useful to start out by asking what the role of a corporation is. This usually produces the response – To earn or maximize profits – as well as something like – Yes, but not at any cost – and I promote a short debate between these factions to get the profit-only group to open their minds to alternatives.

I then ask what the consequences are in this case of focusing only on profit as the two companies did. This discussion leads to a consideration of the loss of reputation and a consideration of the determinants of reputation (see Fig 1.3) and the rights (particularly to life and health), expectations, and role of stakeholders (see Fig. 1.1 and 1.5), and who – the Board and executives – should be responsible for ensuring those rights are respected (see Fig. 1.2).

During these discussions when a sufficient platform of knowledge has been built up, or at the

end of these discussions, the answers to the case questions can be taken up.

I finish the case discussion by asking, if the class members were on the Board or were senior executives, how would they guard against the risks evident in this case? This points the class toward the framework and purpose of the rest of the book. (See particularly Ch. 7 pp. 462 and onwards for a discussion of ethics risk and opportunity management)

### **Discussion of ethical issues/questions**

1. *Given strong profit growth, has there been any damage to Baidu.com's reputation?*

I would argue Yes. Stock price changes reflect who the condition (profit) of the company will be in 6-9 months. Reputation problems usually affect future profits downward, and this is confirmed by the BIDU stock price decline from \$308 to \$110 noted at the end of the case.

2. *What would future reputational damage affect, and how could it be measured?*

Reputational damage will undermine the support of stakeholders such as customers, governments and so on, that is needed for the company to reach its full potential over the medium and longer term. Given an alternative, customers will shop elsewhere. This impact could be measured by estimating the loss in value of brand image (for which there are measurement models) and by estimating the loss of future contribution margin on goods or services that will not be sold.

3. *What steps could Baidu.com take to restore its reputation, and what challenges will it have to overcome?*

Baidu must restore its standing on the 4 determinants of reputation in Fig. 1.3 by proving (a) that it was not guilty of the allegations, or (b) that it was guilty, but will not transgress again. Proving innocence will likely involve opening up their processes to scrutiny, perhaps by an auditor of high reputation; or by showing appropriate company policy and indicating commitment to and monitoring of those policies. The company may also want to take other measures, such as building an image of good corporate citizenship, to assist in the restoration. Baidu faces the challenge of overcoming rumors about past acts, and competitor restrictions to Baidu web browser spiders. Baidu may wish to become as transparent as possible about its procedures and positions to offset the damage caused by secrecy that seems to suggest that the company has something to hide.

4. *Governments throughout the world have been slow to react publicly to serious problems such as SARS, mad cow disease, and now melamine contamination. Who benefits and who loses because of these delays?*

Unfortunately delays in reacting lead to delays in publicizing serious problems, thus causing more people to be infected or killed, and the unnecessary spread of the problem, resulting in losses due to curtailment of travel, closing of businesses, and falling productivity. In the end, governments clean up the mess and we all lose in one way or another except for the drug companies whose profit may rise due to the treatments involved. It is interesting to note the second order or ripple affects, such as those caused to other patients by the delay of medical procedures due to the diversion of hospital and other care facilities.

5. *In some cultures, a 'culture of secrecy' or manipulation of the news is tolerated more than others. How can this be remedied by other governments, corporations, investors, and members of the public?*

Secrecy is usually a misguided policy because the truth usually comes out, and many stakeholders, including those who seek to benefit from the secret, are needlessly affected before it does. That is the lesson from SARS, mad cow disease, suppression of information about rapists and many other calamities. We must all understand this lesson and encourage/demand full, frank and early disclosure of such problems. After all, it is the right of stakeholders to know about risks that may reasonably be expected to affect their life and health.

6. *Many other companies with long supply chains, including subcontractors in far-off lands, have found themselves in difficulty. For example, in 1995 Nike was accused of employing child labor in Pakistan and Cambodia through its subcontractors, and subsequently changed its policy and practices with respect to the minimum age of employees working in contract factories. However, it is very difficult to verify age when people do not have birth certificates or when they can be bought cheaply on the black-market.*

- a. *Under such conditions, what are a firm's responsibilities with respect to checking that each stage in the supply chain is complying with company policy?*

Companies must accept responsibility for the quality and integrity of all inputs and processes it uses worldwide – otherwise its reputation and the welfare of its stakeholders are at risk. Company policies must reflect that reality in order to control the risks the company faces.

- b. *Are there organizations that can help companies set standards and confirm adherence to them? If so, what are the organizations' mandates and website addresses?*

- Most large professional accounting firms have this service
- See CSR discussion in Ch. 7 particularly on p. 473

- c. *Should Menu Foods be held responsible for the melamine found in its products?*

Yes, see part a. above.

- d. *Would your response be different if it was the lives of people that were at stake rather than the lives of animals?*

No. It is not appropriate to provide a product that is harmful to health – to humans or dogs – without disclosing the risks fully and adequately so that users are not misled. Not to do this, does not respect the rights of the consumer and ultimately affects us all if time and resources are involved in diagnosis, remediation and prosecution. It is evident that the risks to reputation are similar, so protection is essential from that perspective as well.

- e. *How and why does Nike disclose its policies and practices with regard to supply chain responsibility, and what are the major factors covered?*

Nike policies and practices are disclosed on company websites and in printed material. The company does so in order to bolster its reputation, and signal to its stakeholders (particularly agents, employees and activists) about its expectations and values, and the standards it will monitor. Such disclosure, if credible, will create a cushion of goodwill in the minds of the media, and key stakeholders that will give Nike time to tell its story if rumors of malpractice surface. Factors covered in such disclosure can be found in company disclosures. See for example the Nike Code related to Child Labor at

[http://www.apparelsearch.com/Education/Research/Child\\_Labor\\_Clothing/Child\\_Labor\\_Fashion\\_Industry\\_2005/V\\_Apparel\\_Appendices/Surveys\\_from\\_companie](http://www.apparelsearch.com/Education/Research/Child_Labor_Clothing/Child_Labor_Fashion_Industry_2005/V_Apparel_Appendices/Surveys_from_companie)



[s/Nike.htm](http://www.nike.com/s/Nike.htm)

## **Updates/Subsequent Events**

The officials at the Sanlu Dairy, a company that distributed tainted milk, were convicted of selling fake and substandard products in late 2008 and early 2009. The chairwoman was sentenced to life in prison, 3 senior executives were sentenced to death, and others were sentenced to life in prison or for terms ranging from 5-15 years. Fines were also levied. See <http://edition.cnn.com/2009/WORLD/asiapcf/01/22/china.tainted.milk/index.html>

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## **Case Updates Summary**

News - Nov 24, 2009: China has executed two people for their role in a scandal involving tainted milk powder. Nineteen other people were sentenced to prison terms.

News – Nov. 24, 2009: Hebei provincial government had to provide 40 million yuan in direct subsidies and 60 million yuan in low-interest loans to help dairy farmers survive the crisis. Nationwide, the Chinese Ministry of Agriculture found that 3908 of that country's 20,393 total milk collection stations, roughly 20 percent, to be defective and were shut down.

News - Jan 25, 2010: Timeline: China milk scandal

10 Sept: China reveals that 14 babies fell ill in Gansu province over the previous two months. All drank the same brand of milk powder. Cases start being reported around China.

12 Sept 2008: Sanlu Group admits that its milk powder was contaminated with the toxic chemical melamine.

13 Sept: Production halts at Sanlu Group. Nineteen people are arrested.

15 Sept: Beijing confirms two babies have died. Vice-president of the Sanlu Group apologises to the public.

19 Sept: Melamine is found in ordinary milk from three well-known dairies. One of the firms involved - Mengniu dairy - recalls all its products.

22 Sept: Toll of ill babies rises to 53,000, and the death toll to at least four. The head of China's quality watchdog resigns, becoming the first national leader to step down because of the scandal.

23 Sept: Countries across Asia start either to test Chinese dairy products or to pull them from shops.

26 Sept: The EU bans Chinese baby food with milk traces. Sales of the popular sweet White

Rabbit are halted after tests detect melamine.

29 Sept: Cadbury recalls products in Asia after tests find traces of melamine. Reports say 22 people have been arrested in Hebei province, suspected of introducing melamine into the supply chain.

15 Oct: Nearly 6,000 infants remain in hospital across China suffering kidney diseases. Six are in a serious condition.

21 Oct: About 1,500 raccoon dogs bred for their fur on a farm in China die of kidney failure after eating feed tainted with melamine.

23 Oct: Six more people are arrested in connection with the tainted milk scandal.

26 Oct: Hong Kong authorities discover eggs produced by Dalian Hanwei Group contain melamine. They are pulled off the shelves.

30 Oct: Two more egg brands from Shanxi and Hubei provinces are found to contain melamine.

31 Oct: State media admit that melamine is probably being routinely added to Chinese animal feed.

2 Nov: A Chinese official insists the egg scandal is an individual case and clamps down on illegal producers of feed.

14 Nov: The US issues a nationwide "import alert" for Chinese-made food products.

18 Nov: The Chinese government allows the US to station officials in three cities to help ensure the safety of Chinese exports.

23 Dec: Sanlu files for bankruptcy.

26 Dec: Six men become the first to go on trial in China in connection with the scandal. They are accused of making and selling melamine.

27 Dec: Dairy firms involved in the scandal are to compensate the nearly 300,000 people affected, according to state media.

31 Dec: The trial of four Sanlu company executives begins.

2 Jan 2009: 22 companies involved in the scandal apologise and ask for forgiveness in a New Year text message sent to millions of mobile phone users.

8 Jan: The death of a two-month-old boy after he consumed baby milk powder produced under new guidelines is investigated.

9 Jan: China says it has arrested 60 people in connection with the melamine scandal.

11 Jan: China says a total of 296,000 children had fallen ill from consuming milk products

tainted with melamine.

16 Jan: Parents of first baby who died accept a 200,000-yuan (\$29,000; £21,000) pay-out from Sanlu milk company.

19 Jan: Reports reveal that 213 families whose children were made ill or died from tainted milk have petitioned the Supreme Court, demanding higher levels of compensation.

21 and 22 Jan: Sentences are handed out to 21 people in total, including Sanlu executives and milk producers and traders following their trials in Hebei province, where Sanlu was based. They range from two death sentences to long jail terms.

26 March: The Hebei Provincial Higher People's Court upholds the sentences after appeals, including the death sentences.

24 November: Zhang Yujun and Geng Jinping are executed. They were convicted of producing and selling hundreds of tonnes of melamine-laced milk and milk powder.

6 Jan 2010: Prosecutors in Shanghai say three dairy executives are to go on trial for new cases of allegedly selling milk tainted with melamine.

25 Jan: Melamine-tainted milk products are pulled from the shelves of supermarkets in Guizhou province.

News - Feb 05, 2010: The International Federation of Journalists (IFJ) is appalled at the latest media order issued by Guangdong Province Propaganda Department banning independent reporting on a new toxic melamine milk scandal.

News - Feb, 2010: Chinese tainted milk campaigner accused of provoking social disorder

News - Feb 8, 2010: Another 100 tons of tainted milk was found in the market, distributed by a dairy company in the northern region of Ningxia.

### **Case News Sources:**

China has executed two people for their role in a scandal involving tainted milk powder that resulted in six children dying, officials have said.

<http://news.bbc.co.uk/2/hi/8375638.stm>

Timeline: China milk scandal

<http://news.bbc.co.uk/2/hi/7720404.stm>

China Finds Tons of Tainted Milk Powder

<http://online.wsj.com/article/SB10001424052748703427704575052460437663240.html>

FEBRUARY 8, 2010

By GORDON FAIRCLOUGH

Chinese tainted milk campaigner accused of provoking social disorder

- Tania Branigan in Beijing, guardian.co.uk, Wednesday 3 February 2010

<http://www.guardian.co.uk/world/2010/feb/03/china-contaminated-milk-campaign-social-disorder>

China charges tainted milk scandal activist

<http://www.telegraph.co.uk/news/worldnews/asia/china/7149749/China-charges-tainted-milk-scandal-activist.html>

By Malcolm Moore in Shanghai

Published: 7:44PM GMT 03 Feb 2010

## SHOULD PORN BE SOLD BY CELL PHONE COMPANIES?

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### What this case has to offer

This case permits students to discuss the trade-offs between activities that increase profits and activities that are socially responsible. It allows them to see that sometimes firms will forego profitable ventures if the ethics of the venture are questionable.

### Teaching suggestions

This is a good case for discussing ethical relativism. Many students find ethical relativism appealing because it does not force them to say that anything is wrong. The theory is often used by students to eschew taking responsibility. So, a general discussion of ethical relativism should be conducted prior to discussing the facts of this case.

### Ethical aspects of the case

#### *1. Adult content is profitable*

The argument in favor of permitting adult content on cell phones is ‘freedom of expression.’ Some students will try to use an ethical relativism approach. That is, they will argue that whatever is in the individual’s interest is ethically acceptable. That is, that ethics is simply a matter of personal choice. This is a good opportunity to point the flaws in ethical relativism.

- This position would allow any practice to be ethically correct (such as slavery, torture, or genocide) if a number of people within that society thought that the practice was acceptable.
- It does not admit that there is an absolute standard of right and wrong. There are many similarities in the ethical and moral codes of societies over time and through different cultures. Prohibitions about murder and other forms of violence are universal standards that would be abandoned under an ethical relativist approach.
- Relativism admits of too many exceptions. “The ethical standard may apply to you, but not to me, because it would be inconvenient to me.”
- It is very difficult to define a culture or a social group such that clear standards can be established for that group or sect.

The implication of ethical relativism is that values become a function of or are causally dependent upon an individual’s culture. The implication is that ethical truth would be ‘relative’ to a specific culture and a specific time. Such a position essentially denies that there is any ethical truth. (See *The Encyclopedia of Philosophy*, 1967, Paul Edwards (ed.), v. 3, pp. 75-78).

Many people forget that having a right also entails having a responsibility. Adults may have a right to view and read anything that they want. But they also have responsibilities.

- Pornography can be harmful to children and so we have a responsibility to not allow them to see such material until they are old enough to understand what the material represents.
- Pornography tends to exploit women and the vulnerable. As such we have a responsibility to not encourage their exploitation.
- We have a responsibility to be sensitive to the values of others who may be offended by seeing pornography on their cell phones.

## *2. The trade-off between profitable and socially responsible activities*

Some will argue for a false dichotomy, that a firm can either be socially responsible or it can be profitable but it cannot be both. However, there is no strong empirical evidence to show that firms that are socially responsible are any less profitable than those firms that are not socially responsible. In fact there are strong reasons for firms to engage in socially responsible activities, many of which have an indirect economic impact.

- Investments in socially responsible activities can increase the firm's reputation, thereby creating an intangible asset for the firm.
- Many young adults who are beginning their careers prefer to work for firms that are socially responsible.
- Community stakeholders can be adversely impacted and lobby regulators to deny licensing permits.

Ultimately, Telus, the mobile phone provider in the case, decided that the values signaled by the porn content service were incompatible with their desire to be "Canada's premier corporate citizen" and withdrew the service.

## VIRGIN MOBILE'S STRIP2CLOTHE CAMPAIGN

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### What this case has to offer

This case allows students to discuss the issue of freedom of expression, freedom of choice as well as pornography. More importantly, it provides an opportunity to illustrate that having a right also entails having an obligation.

### Reaching suggestions

The class should begin with a general discussion of the pervasiveness of pornography. It is readily available to almost everyone at any time. Does the fact that it is readily available make it socially acceptable? The students should also discuss the exploitive and dehumanizing aspects of pornography (See the discussion of the Ethics Case *Should Porn be Sold by Cell Phone Companies?*).

### Discussion of ethical issues

#### 1. *Ends and means to ends*

The theory that the end justifies the means is a political theory, often attributed to Nicole Machiavelli. However, it is not an ethical theory. Ethics involves treating people as ends in themselves, and not treating them simply as a means to an end. Providing clothes to homeless people is a very worthwhile end. However, the end is accomplished by exploiting people. Having vulnerable teenagers perform a striptease for the titillation of others is a form of exploitation. Exploitation (dehumanizing people) is not treating people with the respect and dignity they deserve by virtue of their humanity. As such, the end (clothing) does not justify the means (exploitation).

#### 2. *Tasteless marketing*

One of the purposes of marketing is to make a company or product known to potential consumers. Marketing that is in poor taste offends some stakeholder's preferences or values. Tasteless advertising is justified on the basis that the consumer does not remember the advertisement, but does remember the product name. Tasteless advertisements are simply a means of communicating brand name information. But something that is in poor taste is not necessarily unethical. It becomes unethical when the advertisement uses people as a means to an end, or when the advertisement is designed to exploit vulnerable consumers.

#### 3. *Social awareness advertisements*

Some advertisements not only market products but they also remind all of us of our ethnic diversity. The United Colors of Benetton drew attention to ethnic and cultural differences. They were not exploitive; they were not marketing to the vulnerable; and they were not ethically questionable. The Virgin Mobile advertising campaign, on the other hand, was exploitive of teenagers. They were encouraging teenagers to conduct a striptease for the voyeuristic gratification of others. A striptease tends to dehumanize the participant and injures the dignity of the stripper. Virgin was also marketing to the vulnerable. The young are cognitively vulnerable because they have not yet reached their morally maturity. Exploitive advertisements that are marketed to the cognitively vulnerable are considered just as unethical as advertisements that are marketed to the physically vulnerable (medical remedies to those with allergies) or to the

mentally vulnerable (children, or those grieving or serious ill).

*4. What would be a good rule?*

The two rules that most advertisers follow are:

- do not market to the vulnerable, and
- do not use people in an exploitive manner.

**Reference**

Brenkert, G.G. 1998. Marketing and the Vulnerable. *Business Ethics Quarterly*, Ruffin Series 1, 7-21.



## THE ETHICS OF BANKRUPTCY: JETSGO CORPORATION

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### What this case has to offer

This case presents a true story of firm that used deception and lies, called ‘white lies’ by the owner of the airline, to minimize the cost of bankruptcy. It allows students to discuss the concept of lying, understand its consequences, and determine if there are any situations in which lying is an acceptable business alternative.

### Teaching suggestions

Before discussing the details of the case, there should be two general discussions: the first on the nature of bankruptcy and purpose of bankruptcy laws, and the second on the ethical aspects of lying.

Darwinian economics argues that bankruptcy is a natural event. Firms that cannot effectively compete are forced out of the marketplace. In the struggle for survival only efficient and effective firms survive. Because of the high cost of going bankrupt, firms will strive to ensure that they provide the goods and services that people need and want in an effective and efficient manner in order to generate sufficient positive cash inflows to remain economically viable.

Bankruptcy protection laws are intended to allow a period of time for firms to reorganize. Firms are provided protection from creditor claims under laws such as Chapter 11 of the United States Bankruptcy Code or the Companies’ Creditors Arrangement Act in Canada. The purpose of these laws is not to help firms avoid their economic obligations. Instead, they remove some of the financial pressure, thereby allowing the firm to rearrange certain aspects of its operations and structures so that it can resume its place as an on-going business.

Lying is a lapse from moral idealism. Sissela Bok (1978) argues that when wrongdoing, such as lying, is excused (“Nobody is getting hurt and I can’t afford to do otherwise.”), trivialized with a euphemism (“Everybody does it. It’s just the way the business world works.”) or denied (“Nobody cares about this anyways.”), then it may be an example of succumbing to pressure. The liar must identify the pressures that are causing the person to be hypocritical. She also notes that what the liar perceives to be harmless, a white lie, may not be so in the eyes of the one who is being deceived.

### Discussion of ethical issues

#### *1. Ethical Aspects of Bankruptcy*

Bankruptcy protection laws can be abused when solvent firms enter bankruptcy as a cost effective strategy. The firm may use bankruptcy protection to:

- avoid making legitimate payments,
- adjust pension plans without consultation or renegotiation with employees,
- break union agreements, and /or
- circumvent terms of contracts.

Bankruptcy laws are not intended to help firms to entirely avoid their obligations. As such, a key ethical aspect is to investigate whether all stakeholders are being treated fairly. These aspects

can be addressed by asking the following questions.

- Is the firm using the bankruptcy laws in ways in which they were not intended? Are solvent firms using them as a cost effective means to avoid honoring their legitimate liabilities?
- If bankruptcy is just another cost-effective financial stratagem, then does this encourage firms to take unnecessary risks? If the risky venture succeeds, then the firm benefits. But if the venture does not succeed, then the firms can easily move in and out of bankruptcy, with only the creditors suffering as their claims are not fully honored.

## 2. *White Lies*

A white lie is often used to protect the feeling of another. Complimenting someone's hat or attire is a social nicety. The problem with the white lie is that the recipient of the lie does not know that the comment is untrue. In the Jetsgo case, LeBlanc feared that the pilots would not fly the planes to Quebec City if they were told the truth. So, this is not a white lie in which the truth was altered as a polite social gesture. Instead, it is a deception intended to benefit only the liar. The central problem with deception is that it tends to erode trust, which is a key element in the economic system.

## 3. *Reservation System*

Keeping the on-line reservation system open all day on March 20, when he knew it would be permanently closed at midnight that evening was a deception and very unfair to many passengers. These people made their reservations in good faith were misled and deluded into thinking that their reservations would be honored and that their flights would occur as scheduled.

Deception is considered to be unethical because the people who are lied to are not allowed to make an informed decision. They are being treated as means to achieve the liar's objective. As result, when the subterfuge is discovered, they normally feel wronged and manipulated.

## 4. *Waiting Until After the March Break*

Laura Nash (1990) notes that unethical behavior and actions often occur because managers ask the wrong questions.

- Instead of asking whether this will reduce costs, or achieve a personal objective, ask whether this is consistent with the values the firm. Will this decision result in value creation?
- How will this decision affect the quality of the firm's relationship with its customers?

If the manager cannot answer these questions positively, then the manager may be in the wrong line of business. Perhaps, Jetsgo should not have been in the discount airline business. Perhaps the financial and ethical obstacles were too great. If a manager feels that deception, lying and subterfuge are the only means to staving off bankruptcy, then perhaps the manager should admit that operating the business successfully is beyond his capabilities. In such situations, the ethical alternative is to hire good talent to run the firm or rearrange the business model so that lying, deception and subterfuge are not part of the operating strategy of the firm.

## References

Bok, Sissela. 1978. *Lying: Moral Choice in Public and Private Life* (Random House)

Nash, Laura. 1991. *Good Intentions Aside: A Manager's Guide to Resolving Ethical Problems* (Harvard Business School Press).

## BAUSCH & LOMB'S HAZARDOUS CONTACT LENS CLEANER

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### **What this case has to offer**

Most companies do not react effectively and quickly enough to an ethical crisis, particularly over a hazardous product discovery, so the case offers the opportunity to engage students to illustrate the:

- dangers of ignoring or minimizing the potential problems, and the motivations for doing so,
- very real conflicts in the interests of stakeholder such as shareholders and managers vs. the potential victims,
- trade-offs needed between these interests, and when to make them,
- trade-offs between short-run and long-run interests,
- role of corporations, and
- due diligence expected of executives and the Board.

Reference to the crisis management discussions and readings in Chapter 7 would be useful. In fact, this case could be used to illustrate a simple crisis management problem.

### **Teaching suggestions**

To get the class discussion started, I ask the class to vote on whether the role of modern corporations ought to be to maximize profit, or to serve the interests of all its stakeholders including shareholders. The case will lead them to see that the second objective may (and we hope will) lead to the first, but before they realize that divide the class into two groups for discussion purposes – one to take the role of the CEO, Ron Zarrella who has acted in what he thinks is the best interest of the shareholders, and the other to take the role of the victims and their families.

The victim's reps can then be asked what was wrong with the CEO's actions. They will say that he was too slow to react to save their health – to halt sales and send warnings to users.

The CEO's reps should be asked to respond, and they will say that they didn't have all the information they thought necessary to halt sales earlier and send warnings because that would have had a serious negative affect on profits and therefore on shareholders interests (as well as bonuses).

At this stage I ask which shareholders interest they are thinking of: current or potential future shareholders. The normal answer is current shareholders, and I ask if the interests of current shareholders are the same as future shareholders. The answer is not necessarily, and we explore this important point. I ask the class if they think the CEO should be striving to satisfy current shareholders or potential future shareholders. I also ask if the interests of potential future shareholders are the same as for non-shareholder stakeholders. This discussion will lead the students to reconsider the question I asked them to vote on about the role of modern corporations, and prepare them for the discussion of what the CEO should have done.

The class should be asked if there was anything that should have been done more quickly that happened in real life that could/should have been done earlier to assist in the CEOs decision. This will lead to a list such as:

- press for early information on anomalous information (Hong Kong issue and Renu's 5 times higher infection than competitors).
- implement an online complaint system to enable early warnings to be received, and follow-up on complaints when they are reported.
- monitor world media for potential problems such as that in Hong Kong and have a assess whether our company could be involved.
- brief the Board of Directors and seek their input, since they are the representatives of the shareholders and will consider the risks to the company and themselves carefully. This illustrates the governance realities for CEOs.
- implement a comprehensive risk management system and mentality in the company.
- clarify company values and priorities in advance as did Johnson & Johnson in their credo that was so helpful to executives in the Tylenol Crisis that the interest of the patient were paramount. (See index for Tylenol refs.)

I finish the case discussion by asking the class what the priorities of the CEO should be when facing another problem such as this. Hopefully they will put the victims' interests ahead of the current shareholders', and then I ask them to vote again of the question I put at the beginning.

### **Discussion of ethical issues**

1. *What lessons should be taken from B & L's Renu experience?*  
See above
2. *What should Zarrella have done and when?*  
See above

### **Update/Subsequent Events**

See B & L issue Summary at

[http://www.bausch.com/en\\_US/ecp/general/general/backgrounder.pdf](http://www.bausch.com/en_US/ecp/general/general/backgrounder.pdf)

LJB

### **Case Updates Summary**

News - 2008: To help avoid public scrutiny the company went private in 2007 after being purchase for \$3.67 billion by Warburg Pincus a private equity firm.

News - March 15, 2010: Two former Schering-Plough Corp. executives have taken charge at Bausch & Lomb Inc., whose chief executive retired after guiding the optical products maker through the aftermath of a devastating recall of its flagship contact lens cleaner. Bausch & Lomb lost its dominance in the lucrative lens care market after the recall.

News - Jun 10, 2009: Over the past year, Bausch and Lomb has quietly settled nearly 600 fungal-infection lawsuits for causing multiple cases of personal injury, with dozens more

individual claims yet to be resolved. So far it has cost the company more than \$250 million.

**Case News Sources:**

Dangerous Contact Lens Solution: Bausch & Lomb Settles 600 Eye Fungus Lawsuits

Posted On: June 10, 2009 by Pennsylvania Personal Injury Attorney

[http://www.pennsylvaniapersonalinjuryblog.com/2009/06/dangerous\\_contact\\_lens\\_solutio.html](http://www.pennsylvaniapersonalinjuryblog.com/2009/06/dangerous_contact_lens_solutio.html)

Bausch & Lomb pays out more than \$250 million in lawsuits

<http://www.lens-saver.com/contact-lens-articles/bausch-lomb-pays-out-more-than-250-million-in-lawsuits/>

Bausch & Lomb Appoint New CEO, Chairman

By Ben Dobbin, AP Business Writer

Manufacturing.Net - March 15, 2010

<http://www.manufacturing.net/News-Bausch-Lomb-Appoint-New-CEO-Chairman-031510.aspx>

# MAGNETIC TOYS CAN HURT

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## What this case has to offer

This case offers an opportunity to discuss a poorly handled hazardous products case, consider the rights of stakeholders including shareholders, victims, employees and others, and learn about practical risk and crisis management from an ethical perspective.

## Teaching suggestions

The discussion might begin by asking the class whether Mega Brands acted properly or not, and why. They should raise the following:

- Lack of co-operation with CPSC:
  - Delays in providing info
  - Delay in recalling products as requested
- New labeling might not provide enough protection

Then the class should be asked which stakeholders benefited (shareholders wishing to sell their shares in the short run) and which were disadvantaged by Mega Brands actions (victims, shareholders wishing to hold their investments beyond the short term, and so on).

That will provide a platform for asking how Mega Brands actions could have been improved, which will set the stage for taking up the end-of-case questions.

## Discussion of ethical issues

1. *If you were an executive of Mega Brands, what concerns would you express to the CEO about the Magnetix Toy issues noted above?*

- The rights of the victims and their families, our employees (some of whom will leave) who will see their reputations tarnished by association, our distribution channel partners and long-term shareholders have been damaged. Was the loss worth the benefit?
- Legal liability will likely ensue for the company and its senior executives that will be costly to defend in terms of time and money.
- Damage to reputation will be lasting and serious, thus depressing sales and profits. Mega Brands sells in the children's toy market – where children are considered more vulnerable than adults – and the company should realize that it is really selling trust, not toys.
- The company's risk management systems and practices were faulty:
  - System flaws
    - no recording, analysis and risk assessment of complaints
    - no scanning of media for potential problems
    - no reporting system to top management and the Board

- no responsibility allocated for someone to champion and oversee the risk management process

#### Practice flaws

- denial of responsibility
- non-cooperative with authorities
- no worthy risk assessment
- no consideration of company values and how those are signaled to employees and other stakeholders
- undermine reputation

#### 2. *If the CEO didn't pay any attention, what would you do?*

- Report the matter to the company's Board through the Governance and/or Audit Committee
- Consider whistle blowing to the media

#### 3. *Should the CPSC have more powers to deal with such hazards and companies? If so, what would they be? If not, why not?*

- Yes, because companies now seem to be able to ignore sound requests from authorities.
- Significant investigatory powers and the ability to levy fines for:
  - ignoring requests
  - failing to have systems that record, examine and report on complaints
  - failing to monitor the quality of complaints and risk management systems
- Legal orders for recovery of ill-gotten profits
- Prosecution for egregious cases leading to fines companies and jail for officers

## Reference

See <http://en.wikipedia.org/wiki/Magnetix>

LJB

## Case Updates Summary

News - Mar 17, 2008: The Montreal-based company recalled two Chinese-made pre-school magnetic toys Monday after receiving a series of complaints about tiny magnets dislodging from their plastic casings.

The move sent its battered shares close to a 52-week low as they lost nearly 14 per cent, or 71 cents to close at \$4.40 on the Toronto Stock Exchange. Over the past year, shares have fallen from \$26.87 to a low of \$4.21.

News- April 15, 2009: Mega Brands America has agreed to pay a \$1.1 million fine to settle charges that the company failed to follow federal guidelines for reporting the known safety risks posed by its "Magnetix" magnetic building sets

News - Nov 13, 2009: Mega Brands occurred loss of 122.1 million that was linked largely to a major recall of its entire Magnetix line.



**Case News Sources:**

Mega Brands stock plunges on news of latest recall

The Canadian Press

Date: Monday Mar. 17, 2008 4:37 PM ET

Company to Pay \$1.1M Over Reporting of Magnetic Toy Risk

By David Goguen on April 15, 2009 9:44 AM | [No TrackBacks](#)

[U.S. Consumer Product Safety Commission Press Release](#)

[Mega Brands America to Pay \\$1.1 Million Civil Penalty for Reporting Violations](#) (CPSC.gov)

- [2006 Magnetix Magnetic Building Sets Recall](#) (CPSC.gov)
- AP: [Toymaker Penalized After Magnetic Toy Death](#)
- [Defective and Dangerous Products](#) (FindLaw)
- [Proving Fault for a Dangerous Product](#) (FindLaw)
- [Injuries from Defective Products](#) (provided by [Johnston Law Offices, P.C.](#))

# MARTHA STEWART'S LOST REPUTATION

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## What this case has to offer

Martha Stewart is an icon. She represents successful women who have made their success themselves by being smart, astute, and hard-driving in a man's world. In addition, although she was once a stock broker, she is best known for the style, good taste and frugality she delivers daily on television and through her line of house wares. These characteristics are all integrated into her reputation, and are a major reason why people are willing to watch her on TV, buy her goods and subscribe to her magazines. *What a shock it was to find the she might have to go to jail for an alleged financially trivial insider trade of ImClone stock.* It showed that anyone can lose their reputation, and face great cost; and that we all need to be on guard for ethical malfeasance. This MSO case shows how reputation is vulnerable, what the cost might be, and allows reflection of how to handle such problems before and after they occur. MSO gets students thinking about ethical behavior, and what it means in business.

MSO offers an opportunity to discuss: the link between ethics and reputation, reputation drivers and models, how trust underpins reputation, the cost of losing reputation, the relationship of reputation to brand recognition in marketing, insider trading and ethical issues in general.

## Teaching suggestions

This is a great case to assign because it is current and will stir up lots of discussion amongst the students, their friends and around the dinner table. Martha is innocent until proven guilty in court, but can her reputation escape intact? In class, after calling for a recap of the case, I deal with the questions asked at the end of the case, and answered below. I use a set of PowerPoint slides that can be found on my website for instructors to frame my discussion.

## Discussion of ethical issues

1. What was the basis of Martha Stewart's reputation?  
See the first section above.
2. Why did MSO's stock price decline due to Martha Stewart's loss of reputation?  
Investors are far-sighted in that the announcement of investigation and charges against Martha created a dark cloud over her image and therefore her reputation. They reasoned that fewer people would want to sleep on Martha Stewart bed sheets if she became a felon, and the profit of MSO would fall. Also, if Martha really was a one-person dynamo whose ideas and savvy made MSO successful, then prospects for continued dynamism would be reduced if Martha was in jail. Reduced profits meant that investors would be prepared to pay less for shares of MSO.

3. Who is Martha Stewart's target market?

Martha's target market is made up of women (and men – me for instance) who are respect and are interested in the characteristics noted for her reputation because they would like to identify with those characteristics. I believe that this encompasses a wide age range of homemakers who are interested in good, wholesome value(s).

4. What qualities were associated with the Martha Stewart brand, before the controversy? Which of these were affected by the accusations of insider trading, and how? How would you find out for sure?

Refer to the list of characteristics listed above, and to PowerPoint (PPT) slide 4 for a framework and qualities to start the discussion. Obviously, *the trust in Martha and her products was weakened by the accusations* and some customers might wonder if they really knew the real Martha and what she stood for. They might opt for a brand in which they had trust. Also some retail chains might chose not to carry Marta's brands for fear they would be seen to be dealing with an undesirable person. Attitude surveys could reveal a potential shift, as could cross-sectional focus groups. Observed behavior in the short run could also provide helpful information.

5. What level of sales and profits would MSO have reached if Martha's reputation had not been harmed? Refer to SEC or MSO websites for information on financial trends.

This is a matter of projection based upon observed trend for MSO and for the industry. The intent is for the students to explore the factors involved including: MSO, competitor and industry trends, economic assumptions that could bear upon revenues and costs, and so on.

6. What range would the stock price have been in at the end of 2002 based on your estimates?

This follows from the analysis in question 5, and from projecting the multiple that shareholders might be willing to pay for those earnings. Estimates will follow.

7. Martha's overall net worth was huge relative to her investment in ImClone. Assuming she did not have inside information, was there any way she could have avoided the appearance of having it?

Yes. She could have responded to the charges quickly and fully, and have been helpful to the investigation. All of this would have indicated that she thought that she was innocent.

8. How could Martha have handled this crisis better?

Yes, in addition to the answer to question 7, Martha could have donated the modest saving of \$45,673 to charity. This would have shown that the amount of money involved was not enough to motivate her to break the law and damage her reputation. Other suggestions of this nature are also relevant.

9. Why is insider trading considered harmful? Should insider trading be banned if it assists in moving a stock price to a new equilibrium quickly, so that non-insiders are trading at appropriate prices sooner?

Insider trading is harmful because it is evidence that privileged insiders with access to information before the rest of the market hears can make an unfair from unknowing

investors. It shows investment markets to be unfair and not to be trusted, thus weakening the desire of other investors to participate thereby lowering the pool of funds available and raising the cost of capital. Insider trading may speed up market price transitions, but some investors are losing unfairly in the process so there are victims. Why should insiders be allowed to make unfair profits – once the info becomes known, the market will react and the equilibrium will be real, not what some speculator believes is in his/her interest.

10. If you wished to sell an investment in a company where one of your friends is an insider, or even a significant employee, should you call your friend to advise him you are about to sell? Why, or why not?

No, you should not. There would be at least an appearance of a conflict of interest and of inside trading that you should avoid. You do not really owe him any such information, and your call could get you and him into trouble.

### **Subsequent Events**

Check for further information:

- SEC website
- [http://en.wikipedia.org/wiki/Martha\\_Stewart](http://en.wikipedia.org/wiki/Martha_Stewart)
- <http://ca.finance.yahoo.com/q/bc?s=MSO&t=my&l=on&z=m&q=l&c=>

In August 2006, Stewart agreed in a settlement of the related civil case brought by the SEC to a five-year ban on serving as a director or officer of any public company.

The stock price of MSO fluctuated since Martha's problems surfaced in 2002, and have traded below \$5 in 2009.

## BHOPAL - UNION CARBIDE

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### What this case has to offer

I find this case to be an excellent way of:

1. Breaking the ice with a new group, and developing a good learning dynamic.

Essentially this means getting to know the group, getting them to start discussing issues which they are not used to and sharing their thoughts and values. I have found that one of the most effective ways of fostering learning in ethics is to create a dynamic where class members are led to discuss issues and to share their values and beliefs with their peers.

2. Developing a greater awareness and appreciation of more ethical issues.

Usually, the discussion dynamic produces a greater awareness by everyone of issues which are important to the group and why. Often people are influenced by their circumstances to think narrowly about their own interests, or to dismiss views contrary to their own as hair-brained - but when their colleagues express them they listen and develop an appreciation for them.

3. Stimulating discussion, leading to a desire to learn more about ethics

Bhopal - Union Carbide provides ample opportunity for *stimulating* discussion about real issues - issues that are *relevant and important* to business and to professionals. As a result, people see the importance of learning more about ethics and about making ethical decisions.

4. Exploring the following specific ethical issues, among others:

Do businesses have responsibilities beyond what is proscribed by law?  
Whose laws should apply, foreign or domestic?  
Should business satisfy the needs of current or future shareholders?  
Should business respond to the needs of non-shareholder stakeholders?  
Should businesses subscribe to goals other than profit?  
When/how should tradeoffs between profit and safety be made?  
What is the appropriate role for the company/for government?  
Can a company get away with unethical behavior in far-away lands?  
Who is to blame for the tragedy in Bhopal?  
What can be done to avoid a recurrence?

### Teaching suggestions

Usually, I barely introduce myself and the objectives of the course/session, and then ask the participants to read the Bhopal - Union Carbide Case. It takes them about 7-10 minutes and then I start the discussion by asking them what ethical issues they noted (Question 1) and why they thought each was an ethical problem. The suggestions come with increasing frequency, and the class will want to debate each of the controversial issues as it comes up. I usually resist this until many four or five major items are on the table and then I find I can find a natural entry point to begin exploring the issues I have listed on the previous page. The ethical issues brought forward will rarely be in the order I have organized them into, nor will all the issues listed be raised without prompting. I don't worry about this, partly because I can steer the discussion to cover the main issues and partly because I usually want to cut off discussion after about 45 minutes. Even if all the issues are not dealt with by that time, most of the pedagogical objectives outlined above will have been met. I wind up the case discussion dealing with Questions 2 and 3, and then move into a discussion of the other issues raised in Chapter 1 using overheads covering:

Background: a definition of ethics, reasons for heightened interest in ethics

Important concepts: stakeholder, corporate social contract, codes of conduct

Objectives of business: Friedman's doctrine and rejoinders

This usually takes 90 minutes, in total, at a brisk pace. The students are very energized and keen to go on. Sometimes we have to finish the discussion on Friedman at the beginning of our next session.

## **Discussion of ethical issues (*Question 1*)**

### *Profit vs. safety*

Among the first topics ethical issues suggested will be the causing of death and injury by a commercial process. I usually play devil's advocate here, by asking questions and reminding the participants that the traditional role of business is to pursue profit and only profit, within the law, of course... Isn't it the traditional role of government to create the laws and set standards to protect society?.. Anyway, weren't most of those killed or injured just illegal squatters or poor living in a shanty town?

It doesn't take long for the class to agree that safety should be one of a corporation's goals, if not for altruistic reasons, then for the self-interest inherent in continued profitability. Where they find difficulty is in assessing the tradeoff between safety and profit - or in this case the reduction of a loss. They don't have a framework to handle this assessment and tradeoff, nor the tradeoff between short- and long-term profit - and are pleased to hear that the frameworks for ethical decision making will be helpful here.

### *Assessing blame: the role of government, whose laws should apply?*

The discussion often moves rather quickly to who is to blame for the tragedy. Some will claim that the government was at fault for not regulating tightly enough. After all, that is the role of government, and business' role is to respond. They often couple this argument

with the issue of business needing to be competitive on a global basis and thus - with the encouragement of third-world governments - need to avoid heavy cost/red tape safety regulations. To this I ask how they think laws and regulations are set - do laws reflect how society wants to be governed, and/or is there a lag. What causes this lag...time for the political process, and lobbying from special interest groups including the companies to be regulated. So, the class comes to realize that believing that the traditional division of roles of business and government will result in the fair and proper treatment of society may be naive. In third world countries, the probability of bribery and ignorance influencing the process of standard-setting is significant, so relying on third-world regulations may be risky if your company may be judged by higher standards such as those in your largest market, or at home. This was the case for Union Carbide although the Indian government encouraged the operation, thinking it and its products to be of high quality and value-added.

Negligence is a factor that is usually debated. The local management, if they were adequately knowledgeable, clearly lost track of the shut down of how many fail-safe safeguards were under repair. The loss of good manpower as a result of cost-cutting is probably the responsibility of the US firm even though they only own a slim majority (0.9%), because they had the knowledge to understand what the result might be. They certainly failed to follow up on the state of repair of the facility on a basis like they would have done in the US. A similar case can be made for the culpability of the Indian government, but it is important to note that neither the Indian courts nor the US shareholders took much notice of this. They blamed the management in the US. The lesson here, in hindsight, is it would have been advisable to follow the tighter US regulations.

### *Can unethical behavior go unnoticed?*

Some students will think that they and their companies can get away with unethical or illegal acts. Of course they can, but there is a risk of getting caught and the cost of restitution may be enormous. Anyone who believes that the third world is too far away to attract attention must have been comatose during the CNN telecasts of the recent Middle-east War. The question to be asked on behalf of profit-only advocates is whether the increasing risk of exposure is worth taking.

### *Aside from loss of life and health, what is the greatest loss?*

This is an interesting question to put to the class. Some will say reputation...and I will ask how to put a value on it. After some thought, the suggestion will come that this cost is represented by an estimate of lost sales by potential customers. Actually the right answer is the lost margin of profit on those lost sales, and this can be estimated relatively easily. The total can be staggering to most companies and far exceeds the legal penalties, which might be assessed. This is a revealing discussion for many hard-line students.

*What can be done to avoid a recurrence?*

Most large companies have developed internal mechanisms to maintain safety and ecological standards on a worldwide basis. This usually involves a mechanism for instant notification to head office to enable coordinated, effective crisis management. As a result of this tragedy, the heads of Union Carbide and Dow Chemical in Canada caused the Canadian Chemical Producers Association to develop a self-policing Responsible Care Program designed to minimize the chance of problems developing and to quickly remediate them if they did occur. This program became so highly thought of that it has been copied in the US and around the world. It is interesting to note for the class that often such learning and useful programs have to wait until tragedies to happen. Proactive management is needed to avoid this.

### **The Doctrine of "Limited Liability" (Question 2)**

Many people have heard that the doctrine of limited liability will protect you if you are a shareholder if difficulties arise for the company you own. But they really don't understand what the doctrine means, and, like the Union Carbide shareholders, they are in for a shock in certain circumstances. This is because the doctrine of limited liability applies when a shareholder has bought shares directly from the company and has paid all that they own on the transaction. If a problem then develops for the company, no one can require the shareholder to put up more money. However, the doctrine does not protect the shareholder from losing the market value of the shares owned. To this extent any shareholder, like the Union Carbide (US) shareholders can still be at risk in spite of the doctrine of limited liability.

### **Compliance with Legal, Moral, or Ethical Standards (Question 3)**

One of the more interesting parts of this case discussion occurs when the students grapple with whether the Indian operations were in accord with legal moral or ethical standards. This forces them to figure out the differences, if any. Only a very few will continue to argue that there are no differences at all, and these people are generally lawyers (Lawyers tend to be susceptible to functional fixation in this regard). Usually the students will want to separate the analysis on two reference dimensions - Indian and US - and arrive at the following conclusions.

| Reference Society | .....Compliance With..... |        |         |
|-------------------|---------------------------|--------|---------|
|                   | Legal                     | Moral  | Ethical |
| Indian standards  | Yes                       | Yes/No | No      |
| USA standards     | No                        | No     | No      |



I usually have to clarify what I mean by moral and ethical standards, which I do as follows:

Moral has to do with habits - what current practices or mores are.

Ethical refers to what mores should be - respecting a set of relatively absolute rights or values like the right to life, to health etc. In clarifying this concept I like to ask the students to consider whether the impact of the actions was "right" or not.

As society's social consciousness is heightened, the perception of proper behavior appears to move toward the ethical end of the spectrum.

In my view this is an outstanding case to start off the study of ethics.

### **Subsequent Events**

See <http://www.bhopal.com/chrono.htm> for an update on events. In 2006, Dow Chemical that had merged with Union Carbide in early 2001, was asked for further funds by the Indian government.

## THE BETASERON DECISION (A)

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### What this case has to offer

Betaseron A is a terrific case for breaking the ice with a class, and for getting them to start thinking about business ethics problems in a real-life setting. Specifically they will have to wrestle with:

- the role of a corporation – is it to make profit, how much, how
- the role of government in setting standards and looking after the public
- the role of stakeholders in the corporation's achievement of its strategic goals
- the long-run view vs. the short run
- real tradeoffs executives have to make.

The case evokes great discussion providing a memorable learning experience.

### Teaching suggestions/Major ethical issues

I usually advise the students that the case is based on a real-life problem, and one that pharmaceutical companies face continuously. I then write three headings on the board to facilitate keeping track of suggestions and the discussion on the problems identified at the end of the case: pricing, distribution of scarce product, and supply enhancement. I ask: "Whose fault is this lack of product?" Answers vary between the corporation and the government, but in the end I ask: "If it is the government's fault, does the company have to worry about it?" The answer is *yes, if the corporation wants to maintain the trust and confidence of its customers and the medical community*. Both of these stakeholder groups are essential to the achievement of the corporation's strategic goals. They are primary stakeholders per the discussion of stakeholder theory in the text at page 181.

I then put forward that, if the company were to charge \$50,000 for a 12-month dosage of Betaseron, the limited supply would be enough to serve the market. I ask if this isn't the right approach for the company if its role is to maximize profit. A lively discussion ensues and usually turns into a discussion of how much profit is enough. We then turn to the issues of enhancing supply, and of fair, cheap distribution. Opinions differ and we cover such issues as: should the company care; legal realities caused by unhappy relatives and sufferers, cost, alternatives, giving up secrets to other manufacturers who would be licensed, and so on. I finish by reading the class the actions taken by the corporation that are described in the Betaseron B case that is attached below. The class is always surprised by the long-run, stakeholder-oriented view taken by the corporation.

The author, Ann Buchholtz, who is now at the University of Georgia, has an excellent teaching

note on the A and B cases.

**THE BETASERON® DECISION (B)**  
**Dr. Ann Buchholtz, University of Georgia**

On August 20, 1993, Berlex announced its distribution and price plan for Betaseron® and sent a letter to all U.S. neurologists detailing its pricing and distribution.

- Persons who have either commercial medical insurance or an annual family income of more than \$50,000 would pay \$1000 per month. However, to encourage strict compliance to the treatment regimen, Berlex would give patients two months of the drug free of charge after ten consecutive months of compliance. Therefore, anyone who adheres to the prescribed treatment regimen would pay \$10,000 (annually), the highest price to be paid for the drug.
- Persons with an annual family income between \$20,000 and \$50,000, without medical insurance, would be provided financial assistance by the company to help support the annual costs of the medication.
- Persons with an annual family income below \$20,000, who have no medical insurance, would be provided the medication free of charge.

To minimize out-of-pocket expenses, Berlex developed the *Betaseron® Card* which would identify patients to pre-chosen pharmacies and provide information about their payment program and price. Qualified patients would receive interest-free deferred payment for up to 55 days. This was intended to enable most patients to pay their bills after they received reimbursement. The card was provided through a financial institution and financed by Berlex. After 55 days, a finance charge of 12% would be applied to any unpaid balance. Berlex would not receive any portion of the interest payments and would not profit from the card.

Distribution was set to begin in October 1993, with distribution handled by PCS Health Systems, Inc., a nationwide network of affiliated pharmacies. This managed pharmacy network served two purposes. First, it enabled Berlex to cut costs by minimizing handling charges; Berlex estimated that patients would save about \$2000 per year. It also enabled Berlex to provide the drug only to specifically identified patients and insure that, once therapy has begun, the supply of the drug would be continuous.

Initial access to the drug was determined by a lottery, designed to provide equal access to the initially limited supply. Physicians who wished to obtain Betaseron® for their patients enrolled them in the program during an open registration period from August 23 to September 15, 1993. At the conclusion of the registration period, patients were assigned a randomly generated number. Patients who registered for the drug after the close of registration were put at the end of the list on a first-come, first-served basis. Those with numbers under 1000 were slated to begin receiving the drug immediately. Those with numbers under 12,000 would have the drug by year's end. Those with numbers between 12,001 and 40,000 were expected to have access to the drug by mid to late 1994 and those with numbers over 40,000 would probably not be supplied Betaseron® until late 1994 or early 1995. Berlex placed no restrictions on which MS patients physicians could enroll, in spite of the FDA indication for ambulatory relapsing, remitting MS.

Patients with MS and their advocates were left with a host of questions. Was the lottery system a fair way to resolve the distribution dilemma? How fair was the pricing structure? Did Berlex do everything possible to guarantee equitable access to the drug? Who were the winners and who were the losers? Lastly, what problems were likely to result from this solution?

## TEXACO: THE ECUADOR ISSUE

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### What this case has to offer

This is the case of a company that has to answer for problems from its past in a foreign land that were thought to have been put behind it years ago. It provides a real-life, interesting vehicle for discussion of:

- Responsibility of a corporation on foreign soil and the role of the foreign government involved
- The reality of modern stakeholders and the pressures they can bring to bear
- The fickleness of a foreign government
- The difference between legal behavior and ethical behavior
- Lingering consequences of some actions
- Shared liability (with government, and for an act of God).

### Teaching suggestions

I begin this case with a brief introduction about the challenges of operating in foreign lands with their varying cultures. I point out that: *today's world is very small in that CNN will broadcast on TV any problem from any part of the world within one day of its occurrence; and that a corporation is increasingly accountable to its stakeholders in its consumer and capital marketplaces as well as being subject to the activities of interest groups from all over the world.*

I review the lawsuits that have been filed asking what the claims involve and point out that *compensation is being sought for illness, loss of property (livestock), loss of livelihood (from the forest), and loss of sustenance (food and water).* This is critical ethically because the reparations made by Texaco do not address all of these issues directly or fully, but I don't articulate this until the class realizes it or at the end of the case discussion.

I then ask the questions posed by the case and enjoy the discussion they bring.

### Discussion of ethical issues

Responsibility of corporation and of the foreign government

The assertion that the company's goal is to make profit, and the government is to say how, breaks down in this case because the contest is between unequal adversaries. The company has more knowledge, its resources are more focused, and foreign government officials are often able to be influenced to assist the company. Consequently, unless the company is very careful – and this requires internal motivation beyond immediate profit and government initiatives – corporate

actions will appear to take advantage of a weaker foreign government and be considered unethical.

#### Stakeholder networks

Students should not view Texaco's problem in a static framework. The stakeholder groups suing Texaco influence each other and also external groups such as Texaco's customers in the US. Boycotts are possible. Accountability is now worldwide, and issues management people stay on top of emerging problem areas so that corporations can put their best foot forward at all times in a dynamic world.

#### Legal vs. ethical approach

Texaco has relied upon legal agreements with the Ecuadorian government to resolve its problems. Unfortunately, the government has changed its mind as any political unit will sometimes do and has joined the lawsuits. Moreover, unless Texaco's solutions appeal to the aggrieved stakeholders, their actions against the company will continue, and the problem will continue. Unless action considered ethical is taken, Texaco's problems will continue.

Question 1: Why shouldn't the Ecuadorians be able to sue in US courts? If they weren't, companies would get away with unethical acts when their assets were moved beyond foreign jurisdictions. Students will come up with many reasons for not allowing such suits.

Question 2: A company should not be liable for an act of God unless there is some confounding aspect of negligence, or unless there is a contractual responsibility to pay. Negligence is, however, subject to judgment such as who should pay for pollution caused by a downpour that washes out a mining tailings pond. Was the dam adequate?

Question 3: Texaco's arguments showed evidence of concern, but the associated actions did not seem to address the reasonable concerns raised in the three lawsuits. I would find for the Ecuadorians if I were the judge.

#### Subsequent Events

See <http://www.texaco.com/sitelets/ecuador/en/> for updates.

On August 16, 2002, the U.S. Court of Appeals dismissed the Aguinda v. Texaco and Jota v. Texaco litigation on the basis of *non conveniens* indicating that the proper venue was in the courts of Ecuador since that was the site involved, and where the plaintiffs, records and other evidence was located.

In the fall of 2003 (to which ChevronTexaco replied on October 21, 2003), a lawsuit was filed against ChevronTexaco in Ecuador. The trial continues in 2009 amid charges of prosecutorial misconduct.

#### Case Updates Summary

News Dec 30, 2008: In 2003, the Ecuadoreans filed their case in Superior Court in Nueva Loja,

also known as Lago Agrio, 20 miles south of the Colombian border. The suit was led by U.S. and Ecuadorean lawyers.

In April 2008, team of Cabrera, a geological engineer in Quito with 20 years of experience, appointed by the judge to evaluate pollution data, concluded that Texaco's mishandling of waste until 1990 was the main cause of the pollution. It proposed a cleanup of 916 pits and underground aquifers. The report pegged total damages at \$16 billion.

News- Apr 30, 2009: A judge is preparing to render a decision in the long-running, multibillion-dollar Texaco-Ecuador lawsuit. The defendant, Chevron Corp. — which bought Texaco in 2001 — denies the accusations. But a court-appointed expert agrees with many of the plaintiffs' charges and has assessed damages at \$27 billion. Now, a judge in the small town of Lago Agrio, says he hopes to have a decision soon.

**Case News Sources:**

Texaco Toxic Past Haunts Chevron as Judgment Looms

By Michael Smith and Karen Gullo

<http://www.bloomberg.com/apps/news?pid=20601127&sid=aymV5i.4yp.E>

Rain Forest Residents, Texaco Face Off In Ecuador

by Juan Forero

April 30, 2009

<http://www.npr.org/templates/story/story.php?storyId=103233560>

## WHERE WERE THE ACCOUNTANTS?

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### What this case has to offer

This case was designed to raise questions about two major scandals (the S & L crisis and BCCI) and one health problem (smoking) and ask *why accountants were not more proactive* in avoiding the problems, and more proactive in matters which bear upon their expertise. This *leadership* is what many would like to see in a profession they would like to join. In the process of discussion, students will gain *a better understanding of the accountant's expertise and their role as a professional*.

### Teaching suggestions and discussion

This case is a good one to assign students to do some research in advance on the S & L crisis and on the BCCI scandal. For the former I would refer them to *Management Accounting*, February 1993, and for the latter to *Time*, April 1, 1991. The students can then report what they found out about the two scandals to the class to provide background for the discussion. The history involved is something a budding accountant should know, partly in order to avoid a repeat of a similar unfortunate happening.

Based on this understanding, I would ask whether the scandals could have been avoided and how? This usually produces the response that, had accountants been quicker to appreciate the danger in each, and had they spoken out more forcefully, the problems could have been avoided or prevented from getting as large and bad as they did.

I then ask why didn't accountants recognize the potential of the problem earlier and speak out. The answer revolves around self-interest, and lack of understanding of the potential downside. For instance, accountants should have known and probably did know about the financial uncertainty of the S & L's but hoped that the fortunes would turn around and all would be well. It was not in the *short-term self-interests* of accountants involved as auditors or as management personnel to blow the whistle too loudly. Jobs and/or clients would have been lost. The motivation for non-disclosure of the BCCI fraud is probably similar, although it was finally brought to light by a report of the firm's auditors in Great Britain, Price Waterhouse & Co. The lesson here is that a professional's short-term self-interest does not provide a suitable basis for protecting the profession as a whole, or the interests of investors, depositors and the public who ultimately had to pick up the cost.

In the case of the health related debate on the costs associated with smoking, I would ask the class how an accountant could have provided leadership in the gathering of information. The discussion should progress from suggestions for employing traditional costs to estimates of costs which would be part of a cost-benefit analysis (i.e. costs which are beyond those which would fit into a traditional financial statement such as a surrogate cost for pain and suffering. This area is often beyond the scope of many college programs for accountants, but the question is should it be? Accountants are experts in measurement and should be able to contribute to such analyses.

As subjects like the measurement of environmental impacts becomes more important, perhaps accountants thinking of measurement beyond traditional limits will become more popular. When it does, accounting education will adapt and more accountants will be prepared and willing to speak out on non-traditional, but important, subjects. If they don't some other group will assume the leadership of the measurement function in these emerging areas.



## RESIGN OR SERVE?

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### What this case has to offer

This case combines the facts of two real-life situations. It offers the opportunity to:

1. work with the stakeholder concept,
2. reason through two business arrangements to produce the best accounting disclosure of the transactions involved from a traditional accounting perspective and an ethical perspective,
3. face the decision to resign or continue to serve a client,
4. consider what effort should be made to give your views as out-going auditor to the in-coming firm, and
5. consider when it is appropriate to take on a client when another auditor has resigned.

Due to placement of this case in Chapter 1, the discussion of ethical issues and ethical decision frameworks will not be as well developed as it would be if the case were used after the material in Chapter 4 were dealt with.

### Teaching suggestions

Just for fun, I take a vote of the class at the outset to see how many students think that resignation was appropriate, and how many would be prepared to take on the audit after the incumbent had resigned.

I believe that the business arrangement put forward in the case need to be understood before the ethics issues and fundamental questions can be appreciated. Consequently, I begin with a discussion of renegotiations of overdue loans to enable calling them current (which has long been a practice in the lending industry), and of insuring against non-payment of accounts receivable (which has been done by governments for overseas trade and factors for years, but not by the type of company employed as insurer in this case).

Based on this understanding, the students can specify who are the stakeholders involved and what their interests are, including:

- current shareholders - accurate portrayal of reality as a basis for decisions, but higher rather than lower profits

- future shareholders - accurate portrayal of reality as a basis for decisions, but lower rather than higher profits
- lenders to the bank - continuing arrangements, repayment according to terms
- creditors - repayment according to terms
- suppliers - continuing arrangements, payment
- employees - continuing employment
- auditors - continuation of reasonable fee for service arrangements, reasonable audit risk, low possibility of lawsuits and legal settlements, no loss of reputation
- management - stable/increasing profits to support their continuance, bonuses and the price of shares or options held,
- accounting profession - no loss of reputation which could damage their franchise and their ability to maximize their independence and future income,
- regulators, etc.

The conflicts in interest which show up in this listing should be underscored with the students because they are at the root of most ethical problems, and they provide a framework for deciding how to best disclose the transactions flowing from the two business arrangements.

## Discussion of important issues

*Renegotiation of overdue loans to call them current:* For this to be substantive rather than just form, the collectability of the loans has to be improved and assured. Repeated renegotiations would imply non-collectability, and should be evident during the course of an audit. The case is silent on the audit work undertaken, but the resignation implies that the auditors had decided the collectability was in serious question.

*Use of insurance against non-collectability:* This approach is not new, but the familiarity of the insurer to the nature of risk involved, and the capacity of the insurer to pay off in the event of large losses would have to be scrutinized carefully. Given the extent of losses being experienced by banks in regard to real estate loans, it is unlikely that any insurer, other than a government could sustain the pay-out required. Once again this may be why the auditors decided to resign.

*Persuasion vs. qualification vs. resignation:* Customarily, as in the case, an auditor who believes statements should be changed or unfair presentation will result calls for a meeting with the management and/or the Audit Committee of the Board and asks for proper disclosure to be made. If adequate changes are not made, the auditors can qualify their auditor's report and disclose the reason for doing so. They need not resign. If, however, an auditor loses confidence in the

integrity of the management of a client, then resignation at the earliest possible moment is the best way to avoid legal liability which will probably ensue. However, the auditor must also consider his/her responsibility to the shareholders. If his/her resignation is without notifying the shareholder of the reason, then the auditor's fiduciary duty to the shareholder has not been

properly discharged because the shareholder may never know of the auditor's concern until it is too late. Resignation from an audit without rendering a report or advising the Audit Committee of the reason is most unusual.

*Courtesy to among auditors/Protection of shareholders and auditors interests:* Codes of conduct for auditors usually provide that incoming auditors contact out-going auditors to advise them of their appointment and to ask whether they had any problems with the client to advise the incoming group about. This would be the opportunity to protect the interests of the shareholders by passing along concerns, and for the incoming auditor to assess whether he/she should take on the job. If this opportunity does not present itself, and in this case it apparently has not, the outgoing auditor, James, should assess whether he should advise Jack of his concerns. I believe he should do so, and follow up in writing or his duty would not be discharged to the shareholders. If this is not done, I believe James would be acting unethically and probably would be open to legal liability as well.

Students should be able to understand more fully the purpose of an auditor and his/her responsibilities as a result of studying this case.

## Multiple Choice Questions

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- 1) The difference between what the public thinks it is getting in audited financial statements and what the public is actually getting is known as:
- a. Credibility gap
  - b. Expectations gap
  - c. Audit gap
  - d. Stewardship gap
  - e. None of the above

ANSWER: b

- 2) Which of the following is **not** a trend described in Chapter 1 as having an impact on the ethics of business?
- a. Directors' legal liability
  - b. Management's stated intention to protect reputation
  - c. Auditors' legal liability
  - d. Management's assertions to shareholders on the adequacy of internal controls
  - e. Management's stated intention to manage risk

ANSWER: c

- 3) Which corporate report discusses subjects that include environmental, health and safety, philanthropic and other social impacts?
- a. Corporate annual report
  - b. Corporate social responsibility report
  - c. Corporate quarterly report
  - d. Corporate stakeholder report
  - e. Corporate ethics committee report

ANSWER: b

- 4) Professional Accountants, in their fiduciary role, owe their primary loyalty to:
- a. The accounting profession
  - b. The client
  - c. The general public
  - d. Government regulations
  - e. All of the above

ANSWER: c

5) Ethical corporate behavior is expected to lead to:

- a. Higher profitability in the short-term
- b. Higher profitability both in the short-term and long-term
- c. Lower profitability in the long-term
- d. Higher profitability in the long-term
- e. Lower profitability both in the short-term and long-term

ANSWER: d

6) Examining the interests of stakeholders is probably required for:

- a. High short-term profits
- b. Optimal medium and longer-term profits
- c. Continuing support from stakeholder groups
- d. Effective risk management
- e. All of the above

ANSWER: a

7) A value that is almost universally respected by stakeholder groups is:

- a. Super norm
- b. Alfa norm
- c. Value norm
- d. Hypernorm
- e. General norm

ANSWER: d

8) Since the mid-1990s, both management and auditors have become increasingly:

- a. Profit management oriented
- b. Ethics oriented
- c. Value management oriented
- d. Risk management oriented
- e. Marketing oriented

ANSWER: d or b

9) The following are determinants of reputation:

- a. Trustworthiness and Responsibility
- b. Credibility, Responsibility and Relevance
- c. Responsibility and Impartiality

- d. Relevance and Impartiality
- e. Relevance, Credibility and Responsibility

ANSWER: a

10) The following would be a key control function of the Board of Directors:

- a. Set guidance and boundaries
- b. Appoint CEO
- c. Approve the sale of company's assets
- d. Decide on the company's auditor
- e. All of the above

ANSWER: e

11) Companies attempt to manage the risk of something happening that will have a negative or positive impact on the company's objectives, such as:

- a. Credit risks
- b. Litigation risk
- c. Reputation risk
- d. Ethics risks
- e. All of the above

ANSWER: e

12) Most large corporations do not consider these risks in a broad and comprehensive way:

- a. Operational risks
- b. Reputational risks
- c. Credit risks
- d. Market risks
- e. Ethics risks

ANSWER: e

13) The following are examples of ethics risks faced by employees:

- a. Honesty and integrity
- b. Fairness and compassion
- c. Integrity and responsibility
- d. Fairness and integrity
- e. Responsibility and honesty

ANSWER: b

14) Not reporting environmental issues is an example of:

- a. Lack of transparency
- b. Lack of integrity
- c. Lack of accuracy
- d. All of the above
- e. None of the above

ANSWER: b

15) Incomplete disclosure of the company's revenue recognition policy is an example of:

- a. Lack of transparency
- b. Lack of integrity
- c. Lack of accuracy
- d. All of the above
- e. None of the above

ANSWER: a

16) This philosophical approach requires that an ethical decision depends upon the duty, rights, and justice involved:

- a. Consequentialism
- b. Virtue ethics
- c. Duty ethics
- d. Righteousness
- e. Deontology

ANSWER: e

17) The Moral Standards Approach focuses on the following dimensions of the impact of a proposed action:

- a. Net benefit to society, fair to all stakeholders, whether it is right
- b. Net benefit to society and whether it is legal
- c. Net benefit to society, fair to all stakeholders, whether it is legal
- d. Fair to most stakeholders and whether it is right
- e. Net benefit to society, fair to most stakeholders, whether it is right

ANSWER: a

18) This organization is developing an international code of conduct for professional accountant:

- a. International Accounting Standards Board
- b. European Federation of Accountants

- c. Financial Accounting Standards Board
- d. Public Accounting Oversight Board
- e. International Federation of Accountants

ANSWER: e

19) The following is a fundamental factor in having an effective ethical corporate culture:

- a. Tone at the top
- b. Efficient oversight by the company's Board of Directors
- c. Workplace ethics
- d. Code of conduct
- e. Ethics risk management programs

ANSWER: a or c

20) Effective crisis management could represent:

- a. An opportunity to avoid costs
- b. An opportunity to change employee's perspectives on risk
- c. An opportunity to enhance the company's reputation
- d. All of the above
- e. None of the above

ANSWER: c