

Test Bank for Business Ethics Case Studies and Selected Readings 8th Edition by Jennings

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UNIT TWO – SOLVING ETHICAL DILEMMAS AND PERSONAL INTROSPECTION

True/False Questions

- T 1. Peter Drucker believes that those who have more education should be held to higher standards.
- F 2. Leaders who are focused on their own goals are less likely to lose their way when it comes to ethics.
- T 3. Galleon Hedge Fund was involved in insider trading.
- T 4. Reality TV shows enhance the "real life" scenarios.
- T 5. The failure to disclose that your college degree was withheld because of outstanding parking fines and violations is unethical.
- F 6. Taking information from a confidential file accidentally left on your desk is not unethical.
- F 7. If I discovered that I unintentionally violated a federal environmental regulation, I should just wait and see if anything happens before taking any action.
- F 8. If my supervisor asked me to cover for him by lying about his whereabouts, I should agree to do it but remind him that I can't make it a habit.
- T 9. Your company's policy on company vehicles is that no family members may use them or ride in them. It would be unethical to use a company car to drive you and your spouse to a movie.
- T 10. You are taking a graduate level course in management that will help you in performing your duties at work. Each week you must submit case analyses to your professor. Using work time to complete the analyses would be unethical.

- T 11. With respect to #10, using your work computer and paper to complete the case analyses would be unethical.
- T 12. Attending a class on company time would be unethical.
- F 13. A supplier has just been awarded a large contract by your company. As an employee in purchasing, you were largely responsible for awarding that supplier the contract. The supplier's sales representative has just called and would like to take you to lunch to thank you for the support. Going to lunch with the sale representative does not present any ethical problems.
- F 14. You are a building inspector for the county. A friend of yours is a plumbing contractor. Under county regulations, all steps in plumbing construction from the initial dig to the final installation of sink and bathroom fixtures requires an inspection sign-off. Your plumbing contractor friend has just called and wants to take you to dinner for your birthday at a five-star restaurant. Because you are friends anyway, the dinner presents no ethical problems.

- T 15. Your company has several outdated computers sitting in a storage closet that no one is using. You have taken one home and set it up for personal use. This is unethical conduct.
- T 16. You work for a school district as a facilities coordinator. You drive to the various schools in the district and supervise construction and remodeling and assess various building needs. When you are traveling around to the various schools, you use a district vehicle that is clearly marked as such. One day you stop at the country club and have lunch before heading to the next school since the country club is on the way. You also stop at the bank drive-thru teller to do some personal banking business. Both the lunch and the bank stop are ethical breaches.
- F 17. Your supervisor has told you that he wants to "get rid of Jane." Jane is a Hispanic female co-worker who is very bright and capable and hardworking. Your supervisor has asked you to document everything Jane does and says that will help build a case for termination. You should do as your supervisor tells you.
- T 18. Alice is a co-worker who is going through a divorce and has two small children. Alice's husband is not paying the child support the temporary court order requires. As a result, Alice is broke until she can get her court hearing. Alice has been able, through diverting checks returned to the company, to take about \$2200 from the company to "temporarily help her cover her bills," as she has explained to you. You must report Alice's embezzlement.
- T 19. The mayor owns property next to one of the proposed sites for the city's new baseball stadium. The mayor has a conflict of interest and should not vote on the location of the stadium when the city council takes action on the site.
- F 20. Although you are not part of your company's engineering group, you have discovered a major flaw in the company's new paper-thin solar calculator. The calculator adds when the subtract button is pressed if there are more than three figures to the right of the decimal point. Since it is not your area, you should do and say nothing.
- F 21. With respect to #20, it is not necessary for the company to take any action to correct the problem or refund money for those who already own the new calculator.
- T 22. Alice is a secretary in your department. Alice is also a member of the American Guild of Organists. Alice has been placed in charge of the Guild's national convention. Each time you pass by Alice's desk or go to her to have some work done, you notice she is on the phone discussing or working on the convention. Alice's work on the convention during work hours is an ethical violation.
- F 23. Your supervisor has had a calendar with pictures of naked women on the inside panel of his desk for several months. A secretary spotted the calendar and commented to your supervisor that it was not appropriate for an office. Your supervisor took down the calendar and has asked you to back him up if any complaints are filed. He has asked you to say that you never saw the calendar. It would not be unethical for you to do as your supervisor requests because he has removed the calendar.
- T 24. A newspaper reporter is interviewing you about your experiences in working for a member of Congress. You have indicated you have information about his private life but will not share it. The reporter responds, "Tell me, just between you and me." You share the information and a quote from you on the private life of the member of Congress appears in the newspaper the next day. The reporter was unethical in violating a trust.

- F 25. It would not be unethical for you to accept two employment offers in case one fell through.
- F 26. It would not be unethical to continue interviewing for positions after you have already accepted employment with a particular firm.
- T 27. You work for a construction firm that is submitting a bid for the construction of a new company headquarters building for Smithco. A friend you have known since high school works in Smithco's capital budgeting area and has full knowledge of all the bids from all firms. It would be unethical for your friend to share that information with you before you submitted your bid.
- T 28. With respect to #27, it would be unethical for you to hire your friend to get him to bring the information to your company.
- F 29. Your college of business is sponsoring a case competition. All teams must watch the other teams compete. The order of presentation is by luck of a draw. The team that is the last to present left during one of the presentations, went to the computer room and redid its PowerPoint slides and restructured its presentation based on what other teams had presented. This team has done nothing wrong.
- T 30. Albert Carr likens business to a poker game.
- F 31. Violation of company rules would not be considered an ethical violation.
- T 32. Albert Carr believes that bluffing in business is justified because it is understood as part of the game of business.
- T 33. Albert Carr believes that a card up the sleeve is not the same as bluffing and is a form of cheating.
- F 34. Peter Drucker believes that the ethical obligation of business is to bluff within reason.
- F 35. Most ethical lapses are sudden and not foreseen.
- T 36. Ethical lapses involve gradual decision processes.
- T 37. Plato believed one cannot make ethical decisions without first developing virtue.
- T 38. A focus on the trappings of success causes leaders to lose their way.
- F 39. Increasing isolation is a part of leadership but does not affect ethical choices.
- T 40. "To bribe or not to bribe" is a set-up for the either/or conundrum.
- F 41. Ikea fell into the either/or conundrum in solving its problems in dealing with Russian authorities.
- F 42. In the equation $P=f(x)$, P stands for profits.
- F 43. During the 1990s, Goldman increased its standards for profitability before doing an IPO.
- T 44. Goldman was originally founded as a partnership.
- T 45. Fabrice Tourre was aware that the CDO market was going to crash.

- F 46. The SEC failed to pass the shareholder say-on-pay regulation.
- F 47. Goldman did not pay a fine to the SEC.
- T 48. Goldman's securities offerings in the 1920s were similar to its offerings in the mortgage-debt instruments sold in the 2000s.
- F 49. Adding in additional home repairs for an insurance claim for damage to your home is simply a shifted norm.
- T 50. MF Global used customer funds for hedging activity.

Multiple Choice Questions

1. Ben Small, a sole practitioner, has just decided to form a law partnership with his lifetime friend, Harvey Steptoe. They agree to name the firm Steptoe and Small and to split all profits. Ben is also a director for a publicly-traded telecommunications firm, NewVector, Inc. Ben has just learned that Harvey is lead counsel in a lawsuit against NewVector. Ben continues to serve as a board member and participates in sensitive discussions about the lawsuit. Ben does not disclose that Steptoe is his partner. Ben's feeling is that he and Harvey are as honest as the day is long and neither would compromise their duties to NewVector and client, respectively.
- Ben has a conflict of interest and must either resign as a director or leave the partnership.
 - The pledge of both Ben and Harvey is sufficient to cover the ethical issues on conflict.
 - It is Harvey's obligation to take action, not Ben's.
 - None of the above
2. Randy White is the executive director of a non-profit preschool for special needs children. Part of Randy's responsibilities include fundraising for the preschool. Because of his experience and success in operating specialty pre-schools, Randy is sought after as a consultant at locations around the country to assist in the start-up and operation of such facilities. Randy does so quite frequently. Randy does not take vacation time for this work, and his consultant fees (which range from \$750 - \$1500 per day) are kept by him as personal income. Randy uses his secretary at the preschool to book his travel arrangements and prepare his consultant reports and bills for these outside engagements.
- Randy's activities are ethical so long as disclosed.
 - Randy is using the time and resources of his employer in an unethical manner.
 - Randy's activities are ethical whether disclosed or undisclosed.
 - There is no conflict of interest in Randy's activities.
3. Beth Williams is an exercise physiologist who serves as an expert consultant for Women's Walkers, Inc., a shoe company specializing in manufacturing walking shoes for women. Dr. Williams is paid an annual consulting fee along with additional fees for drafting reports and making media and public appearances for the company. *Executive Woman*, a national magazine, has asked Dr. Williams to serve as one of three experts on a panel that will evaluate the full market range of women's walking shoes. Dr. Williams will be paid a consulting fee by *Executive Woman* as well.
- Dr. Williams has a conflict of interest and should decline the *Executive Woman* offer.
 - Dr. Williams can participate in the *Executive Woman* panel so long as her affiliation with Women's Walkers is disclosed.
 - Dr. Williams can participate in the *Executive Woman* panel if she waives her fee.
 - Dr. Williams is an academic with no conflict of interest and can participate in the *Executive Woman* panel.

4. Which of the following is not a conflict of interest?
- A doctor's referral of a patient to an x-ray lab that he owns for a full work-up without disclosing his ownership interest
 - A purchasing agent's failure to disclose a 22% ownership interest in a supplier that would be chosen anyway
 - A bank officer's solicitation of a charitable contribution for a non-profit organization of which he is a member from a customer with a large line of credit up for renewal in 30 days
 - All of the above are conflicts of interest
5. Jeff Sanders, head of finance for Components, Inc. has just interviewed Laura Dern, an employee from the finance department of InChip, Components' chief competitor. Laura has explained that she has been passed over one too many times for a promotion at InChip and is thus in the job market. As Laura is leaving she whispers to Jeff, "Look, I have no contract at InChip that obligates me in anyway. I can begin immediately. Further, I have been able to obtain copies of our newest computer chip designs. You'll have them before InChip even begins production."
- Jeff should hire Laura on the spot without any worries about ethical breaches since Laura is not under contract.
 - Jeff's hiring of Laura may constitute an ethical breach, but would not constitute illegal conduct.
 - Jeff should not hire Laura, and must analyze the issue of whether to disclose Laura's conduct to InChip.
 - Jeff should not hire Laura and need not worry about Laura's conduct and its impact on InChip.
6. An application for graduate school admission at Arizona State University includes the following request for information:
- Please list all institutions attended since graduation from high school.
- Marie Davis, a returning student, is applying for admissions to the Masters in Architecture program. Marie attended the University of Arizona for one semester in 1976. Marie had a substance abuse problem and did not attend many of her classes. She left the University of Arizona before classes ended that semester. She did not take her final exams and earned 15 credit hours of "E" for that semester. After 8 years, the policy of the University of Arizona is to expunge the records of non-matriculating students. Marie's record was expunged in December 1994.
- Marie need not disclose her attendance at the University of Arizona.
 - Marie should disclose her attendance at the University of Arizona.
 - Since Marie did not matriculate according to the University, she did not attend the University of Arizona.
 - None of the above
7. A radar detector:
- If purchased legally, is not an unethical device.
 - If used only in those states in which they are permitted is an ethical device.
 - Is a legal and ethical tool for circumventing speed limits.
 - None of the above
8. A professor for one of your courses has assigned reading materials from various publications. He tells you that the materials are on reserve and that each student should go and copy the materials

- individually. He notes that for him to copy the materials for students and then sell them or distribute them would be a violation of copyright law. The professor's conduct:
- a. Is unethical and violates copyright law as well.
 - b. Is something everyone does and is accepted behavior.
 - c. Does not really harm anyone.
 - d. Is acceptable in an academic setting.
9. You had quite a night last night of partying. Because of excessive drinking, you are unable to get to work today. When you call your supervisor you:
- a. Should just say you have the flu.
 - b. Should just say you are sick.
 - c. Should disclose the prior night's activity.
 - d. None of the above
10. Professor Reba McGintry is the head of the Student Conduct Board. Charges have been brought against 3 students who are also members of the university basketball team. The charges are based on the criminal charges brought by the local district attorney against the 3 men for sexual assault. Professor McGintry's husband was one of the staff attorneys in the DA's office who made the decision to go forward with the prosecution. Professor McGintry:
- a. Can proceed with the hearing because the two matters are unrelated.
 - b. Can proceed with the hearing because of marital privilege.
 - c. Must excuse herself from the students' hearing because of a conflict of interest.
 - d. Has no conflict, but her husband does.
 - e. None of the above
11. Medical Purchasing Agents (MPC) is a company that represents groups of hospitals as their agents for purchasing medical supplies. MPC is able to obtain discounts for the hospital group because of their sheer volume needs when they are grouped together. MPC's CEO, CFO and general counsel own 51% of the stock of a company called Medi-Pump. Medi-Pump is the sole supplier to the hospitals for feeding pumps, IV pumps and other forms of hi-tech medical pumps and supplies. MPC has negotiated a low-cost supply contract from Medi-Pump to the hospitals. MPC:
- a. Has served its customers well with the Medi-Pump contract.
 - b. Has a conflict because of its ownership of Medi-Pump.
 - c. Cannot have a conflict so long as the Medi-Pump price is lowest.
 - d. Cannot have a conflict because it represents groups of hospitals.
 - e. None of the above
12. Mary Pickford is an analyst for Munford Stanley, an investment banker. She has touted the stock, an initial primary offering (IPO), of an obscure biotech firm as a "must buy." Munford Stanley is the underwriter for the IPO. Pickford:
- a. Does not have a conflict of interest.
 - b. Has a conflict of interest, but it is acceptable in IPOs.
 - c. Has a conflict of interest that must be disclosed to all purchasers.
 - d. Does not have a conflict of interest, but Munford Stanley does.
 - e. None of the above
13. Suppose, with reference to #12 above, that Pickford already owns an interest in the biotech firm, but Munford Stanley is not the underwriter. Pickford:
- a. Does not have a conflict of interest.

- b. Has a conflict of interest, but it is acceptable in IPOs.
 c. Has a conflict of interest that must be disclosed to all purchasers.
 d. Does not have a conflict of interest, but Munford Stanley does.
 e. None of the above
14. James Dodgsen is a student in a graduate course in business. The professor in the course has given Dodgsen and his classmates a surprise quiz in class. Dodgsen did not do the reading for class that day because he had been grading papers as part of his TA position. He has been prepared for every other class that semester. As he glances at the quiz questions, he realizes that he does not know any of the answers. However, he sees that Jane Frampton, the student who sits next to him, is well prepared and answering the questions with great ease. He can see her answers because of her large, block-style printing. Dodgsen copies her answers.
- a. Dodgsen is justified in using the answers because he the pop quiz was unfair.
 b. Dodgsen is justified in using the answers because he was fulfilling his TA responsibilities instead of preparing for class.
 c. Dodgsen is justified in using the answers if he intends to read the material eventually.
 d. Dodgsen has been dishonest.
 e. None of the above
15. Into which of the following categories do patent and copyright infringement fall?
- a. Conflict of interest
 b. Balancing ethical dilemmas
 c. Organizational abuse
 d. Interpersonal abuse
 e. Taking things that don't belong to you
16. Which of the following would be a breach of trust and ethics?
- a. Sharing a new product idea with a prospective employer
 b. Leaving your current employment for a higher paying job
 c. Leaving your current employment for a job with more flexibility
 d. Taking the skills you have learned at a current job to a new job
 e. All of the above are breaches of trust and ethics
17. An ad contains the following: "Restaurant Critic, Jose Winfrey, on Mama Leone's Italian Eatery, 'Mama Leone's is simply the best. It is a surprising new entrant into the competitive Italian bistro market and it is a mighty one.'" Jose Winfrey is the cousin of the owner of Mama Leone's and knows restaurants, but is not a critic for any publication or other media outlet. The ad:
- a. Creates a false impression.
 b. Raises no ethical questions.
 c. Is legal and ethical because it doesn't state where he is a critic.
 d. Both b and c
 e. None of the above
18. Stephen Ambrose, a popular historian with many books to his credit, admitted that some segments of one of his recent books had language taken from the books of other historians that was not in quotes. Mr. Ambrose did footnote the work of authors he relied upon in doing his book.
- a. The work of an author is protected by copyright laws.
 b. The use of quotes without attribution is not a violation of the law.
 c. The use of the material is fair use and need not be footnoted.
 d. Both b and c
 e. None of the above

19. Which of the following feels that business is like a big poker game and that bluffing in business is expected and acceptable?
- a. Laura Nash
 - b. Peter Drucker
 - c. Ayn Rand
 - d. Albert Carr
20. *Primum non nocere* is associated as an ethical philosophy of:
- a. Plato.
 - b. Aristotle.
 - c. Peter Drucker.
 - d. Laura Nash.
21. Which company uses *primum non nocere* as its credo?
- a. AIG
 - b. ABC TV
 - c. ImClone
 - d. Johnson & Johnson
22. Which of the following is NOT a Goldman cultural philosophy?
- a. Filthy rich by forty
 - b. Long-term greedy
 - c. The customer is first and foremost
 - d. Don't kill the marketplace
23. As a result of the Goldman "trading huddles":
- a. Auction-rate securities are now illegal.
 - b. There are now new regulations of analysts.
 - c. Investment banking houses can no longer employ analysts.
 - d. The definition of sophisticated investors has been changed.
24. In the Goldman Abacus deal, who determined what mortgages went into the investment pool?
- a. Fabrice Tourre
 - b. ACA
 - c. John Paulson
 - d. Lloyd Blankfein
25. How did Goldman avoid violation of SOX in advancing cash to two of its officers?
- a. It made them a loan
 - b. It made them an interest-free loan
 - c. It purchased stock from the executives
 - d. It had them issue a promissory note
26. What was AIG's role in the Goldman stock offerings?
- a. It was the insurer for losses on those offerings
 - b. It was the underwriter
 - c. It disclosed Goldman's conduct to the SEC

- d. It had no role with Goldman
27. CDOs:
- a. Are illegal.
 - b. Are collateralized debt obligations.
 - c. Are not securities.
 - d. Could not be hedged.
28. What category of ethical dilemma applies to the use of cell phone alibis?
- a. Balancing ethical dilemmas
 - b. Giving or allowing false impressions
 - c. Conflicts of interest
 - d. Organizational abuse
29. Edith O'Brien:
- a. Was MF Global's treasurer.
 - b. Tried to stop the use of client's funds for hedging.
 - c. Was general counsel for MF Global.
 - d. Has been charged criminally.
30. Which of the following is not true about Jon Corzine?
- a. He is the former governor of New Jersey.
 - b. He is the former senator from New Jersey.
 - c. He is the former chairman of Goldman Sach's.
 - d. He was hands-off in his management style at MF Global.
31. Which of the following is an example Albert Carr uses to illustrate bluffing?
- a. A job applicant over 40 who dyes his hair.
 - b. A woman wearing make-up.
 - c. A job applicant who changes the list of magazines he reads on the job application.
 - d. Carr uses all of the above examples
32. When a company announces that an executive is "Leaving to spend more time with his family":
- a. It means the executive is retiring.
 - b. It means that the executive has a health problem.
 - c. It means that the executive is probably leaving for a different reason.
 - d. It means that the executive is leaving to spend more time with his family.
33. Who of the following objected to Mr. Corzine's risky venture into Greek debt?
- a. Edith O'Brien
 - b. Michael Roseman
 - c. Michael Stockman
 - d. Laurie Ferber
34. How much of the lost money at MF Global did investors receive back in the bankruptcy?
- a. Between 12 and 42 cents per dollar
 - b. Between 75 and 93 cents per dollar
 - c. Nothing, the liquidation brought no cash

- d. 50% of their original investment
35. Which of the following was a characteristic of the culture at Galleon?
- a. It was open and transparent
 - b. Mr. Rajaratnam was a difficult and demeaning boss
 - c. It had a good compliance program
 - d. It had training on insider trading
36. In the Penn State case, who was charged with criminal activity?
- a. The president of the university
 - b. Joe Paterno
 - c. The janitor who did not report what he witnessed
 - d. Michael McQueary
37. Who was the key witness against Mr. Sandusky at his trial?
- a. Joe Paterno
 - b. The Penn State athletic director
 - c. The janitor at the football facilities
 - d. Michael McQueary
38. What was the allegation made about HGTV's "House Hunter" show?
- a. That the houses were not really for sale
 - b. That substitute actors were used for actual homeowners
 - c. That the prices on the homes were changed
 - d. That the buyers never closed the deals
39. What was the allegation about the TV show "Breaking Amish"?
- a. That the people depicted were not really Amish
 - b. That the people depicted in the show had already left their Amish communities before the show began
 - c. That the people depicted in the show never went to New York City as shown
 - d. All of the above are true
40. What did the Freeh report on Penn State conclude?
- a. That the university needed to just provide more training for employees regarding minors on campus
 - b. That the administrators had done the best that they could in handling the situation
 - c. That the Board of Trustees had acted inappropriately
 - d. That Joe Paterno had fulfilled all of his duties to report
41. What were the NCAA sanctions imposed on Penn State?
- a. The so-called death penalty plus a fine
 - b. There were no sanctions except a fine
 - c. A suspension of the football program
 - d. Penn State was stripped of all of Paterno's 112 wins
42. What statutory duty did the Penn State University officials have regarding Mr. Sandusky's conduct?

- a. To report it to the proper authorities
 - b. To terminate Mr. Sandusky
 - c. To report it to the NCAA
 - d. To conduct an investigation
43. Who said, "What's good for me is good for all shareholders"?
- a. The chairman of General Motors
 - b. Jeff Dachis of Razorfish
 - c. Bill Gates
 - d. Sir Alfred Coke
44. Who said a corporation has no conscience?
- a. The chairman of General Motors
 - b. Jeff Dachis of Razorfish
 - c. Bill Gates
 - d. Sir Alfred Coke
45. What is Mr. Rajaratnam, the former head of Galleon Hedge fund, accused of doing?
- a. Advance trading on IPOs
 - b. Trading on inside information
 - c. Honest services fraud
 - d. Fraud in financial reports

Short Answer/Essay Questions

1. Paul Babcock gave the following advice to Standard Oil Company executives who were going to testify before Congress about the business practices of Standard Oil, "Parry every question with answers which, while perfectly truthful, are evasive of bottom facts." Apply ethical analysis to the advice and the statement.

SUGGESTED ANSWER:

The students should discuss that the advice was to leave a false impression. Babcock failed to consider all of the implications of such false impressions given to Congress. Standard Oil's reputation was at stake. Also, giving false impressions that are later discovered could lead to loss of trust and more investigations. Babcock did not consider the implications when the truth came out. Babcock believed he could manage a situation with falsehoods.

2. Why do companies issue press releases when executives depart that indicate the executives are leaving to spend more time with their families? What are the ethical issues in issuing such statements if they are not true?

SUGGESTED ANSWER:

The companies issue the family-time statements to avoid further questions about the real reasons for departure. Such statements help the company to avoid further scrutiny of issues that might or have affected financial performance. However, if the executive leaves and does not in fact spend more time with family the result is that both the company's and the individual executive's credibility are compromised. Those affected by the false impression are the shareholders, the company, the individual executive, the executive's family, the new organization that the executive joins after leaving, and the public relations department, officer, and/or company responsible for the release of the family-time statement.

3. Dr. Phil Hayes has received an offer of full funding for his research on a new drug manufactured by Eli Mentin. The drug would be a competitor for Prozac without the questioned side-effects of possible violent behavior. Eli Mentin has, however, attached a condition to the funding. That condition is that Dr. Hayes may not publish his findings until Eli Mentin executives and its attorneys have had the opportunity to review them.

List the ethical issues Dr. Hayes faces with this offer.

SUGGESTED ANSWER:

Dr. Hayes is creating a conflict of interest for himself and possible sacrificing the perceived independence of his work.

Eli Mentin is compromising the integrity of Hayes' research and potentially withholding information about the product and its safety.

Eli Mentin's approach is not one of candor and compromises the ethical values of honesty, fairness and safety.

4. Data Processing, Inc. is a service firm that performs word processing functions for law firms, corporations and government agencies. Their facilities consist of 120 office units with a word processor in each unit.

Their facilities were formerly a shoe manufacturing plant, and all of the office units are located in one large room. Over the past 14 months, 7 of the 120 word processors have been diagnosed with breast cancer. In six of the seven cases diagnosed, there is no family history of breast cancer. Jane Quinn, the owner and CEO of data processing, has seen a cluster study that links employment as a word processor to a higher rate of breast cancer. Ms. Quinn does not disclose the study to her employees and takes no further action. Discuss the ethical issues.

SUGGESTED ANSWER:

Ms. Quinn has knowledge of a potential harm and is withholding information.

Doing nothing does not solve the problem or minimize risk. At a minimum an investigation is warranted. Safety, fairness, honesty, balance and long-term survival of the employees and the firm are at issue.

5. Susan Wade is the president of the Illinois Hospice Organization (IHO). IHO is a state organization affiliated with a national non-profit organization, the National Hospice Organization. Both the state and national organizations have members from both for-profit and non-profits hospices. Susan Wade is the director of a non-profit hospice in Illinois.

A Chicago newspaper has printed a story about hospices and what they do. Susan was interviewed extensively for the piece. In one quote in the article, Susan expressed her concerns about for-profit hospices. "It has become the sort of franchise of the decade. They're not all bad, but I think the original spirit of hospice is becoming very adulterated. There's one time in a person's life when he shouldn't be looked at as a number, as a piece of an actuarial problem. If your first and last priority is making money, it flies in the face of what hospice is all about. It's the end of the health-care chain. It's the place of last hope for patients. Dollars should not be the issue here."

A chief operating officer of a for-profit hospice has written to Susan complaining that her remarks are libelous and misinform the public about for-profit hospices.

- a. Does Ms. Wade have a conflict of interest?
- b. Is Ms. Wade properly executing her role as the president of the state organization?

SUGGESTED ANSWERS:

- a. Ms. Wade has a conflict of interest in the sense that as president of the state organization she represents all members and should not speak favorably of one type of member and unfavorably about another type. It is not, however, the traditional type of conflict of interest in which she benefits. Ms. Wade works for a non-profit institution and discussing the problem of for-profit will not change whether she has a job. The remarks could have an impact on how many patients her hospice has, but because of the non-profit nature, there is no financial gain to her.
 - b. As an elected representative, Susan should represent all members and not divide the organization or question the motives of some members. Perhaps her issues that she raised for the newspaper stories could be topics of seminars and debates for the members. But she should not be in a position, because of her role as president, to use opportunities with the media to lessen the standing of some members of the organization.
6. James and Jennifer Stolpa and their five-month old son, Clayton, were stranded outdoors in a snowstorm for 8 days. They were rescued after James left Jennifer and Clayton in a cave and hiked 30 miles in subfreezing temperatures to get help.

During the time they were stranded, the Stolpas ate Doritos-brand corn chips that they had with them in their car. When they were rescued and taken to the Washoe Medical Center for treatment of severe frostbite, they were visited by boxing champ, George Foreman. Mr. Foreman is a spokesperson for Doritos. His visit to the Stolpas earned national press and television coverage that emphasized the Doritos consumption.

If you were an executive with Doritos, would you have sent Mr. Foreman to the hospital?

SUGGESTED ANSWER:

The issues here are that of privacy and propriety. The chip maker would be capitalizing on the injuries and suffering of a family with a fairly peripheral fact that they happened to have Doritos in the car. The family can consent to Mr. Foreman's appearance and the cameras rolling, but it is a fairly intense situation for them. The added sales from eating the same chips the stranded family did may not be as significant as the marketing folks may believe.

7. Henry Rauzi, the controller for Sunbeam, issued an offer to Linda Croce for an entry-level accounting position at Sunbeam at a salary of \$34,000 per year. Ms. Croce accepted the offer and gave notice to her employer. When then-CEO of Sunbeam, Paul Kazarian, was informed of the offer, he demanded that Mr. Rauzi rescind it because Kazarian had not approved it prior to it being made. Mr. Rauzi called Ms. Croce at 10:00 P.M. three days before she was scheduled to begin work and told her of Mr. Kazarian's action. Ms. Croce had no job and remained unemployed for several months while she searched for a new job.

Evaluate the legality and ethics of Sunbeam's officer's actions with respect to Ms. Croce.

SUGGESTED ANSWER:

Apart from the obvious legal difficulty that Ms. Croce had a contract because she had already accepted the offer, there is the ethical dilemma, even without such formality, of renegeing on one's word. There was a meeting of the minds and Ms. Croce relied on the promise in quitting her other job. The fact that an internal error in reporting lines was made should not affect the

extension of the offer to Ms. Croce. Ms. Croce had no way of knowing that there were limitations on Mr. Rauzi's authority. Certainly she had no way of knowing that he could not issue an offer. Sunbeam's actions with respect to Ms. Croce were unfair, unbalanced and unethical.

8. In 1991, James McElveen fell 30 feet from a waterfall and broke his back. He was employed by a small business and had no medical insurance. His lifetime friend, Benny Milligan, was with him when the fall occurred. Benny took James to the emergency room. Moved by his friend's severe injuries and pain and suffering and realizing that James did not have insurance, Benny switched IDs with James in the hospital emergency room. James required surgery to fuse his back to avoid what doctors said would have been certain paralysis. The cost of the surgery and hospitalization was \$41,107.45. Neither James, employed as a mechanic, nor Benny, employed as a painter, could have paid for the surgery and follow-up care. Benny's employer's insurance paid for the surgery because the hospital took the information from Benny's ID found in James' pockets.

While Benny was contemplating telling his employer, someone notified the insurance company of the switch. Benny, James, and Benny's wife, Tammy Milligan were charged and convicted of mail fraud, wire fraud and conspiracy. Tammy, because of the Milligans' three young daughters, is serving her sentence through home confinement, Benny is serving 9 months and James is serving 7 months. All three were serve three years on probation and pay restitution.

Benny states, "I know what I did was wrong. But I look back on it, and I feel that I had to do it at the time. I don't feel like I'm a criminal in the sense of rapers, muggers and murderers." Benny said he did not understand that a hospital has an obligation to treat someone who is dying. Friends testified that as they were racing James to the hospital they told Benny that hospitals in the area had routinely refused to provide medical treatment.

Benny said he wanted to tell his employer, but he was afraid he would be fired and then be stuck with the bill. Tammy adds that the government is right to demand restitution but wrong to imprison them. James asked the judge if he could go to prison for all three of them, "I would be lost without my friendship with Benny. I probably would be dead."

- a. Benny and James committed an illegal act. Was it unethical?
- b. What punishment is appropriate in the case?
- c. If you were Benny's employer, what would you have done?

SUGGESTED ANSWERS:

- a. It was wrong and illegal to defraud the insurance company. It was taking the costs of the medical care, something that did not belong to James. Although the case evokes a great deal of sympathy, we all pay the cost when someone who is not insured enjoys payment by an insurer. The harm comes in the form of higher payments for all of us. Benny, James and Tammy all had to lie and sign sworn statements that were untrue in order for James' surgery to be covered under Benny' insurance. They committed their acts in the name of something very important, but it was wrong.

Benny defined the problem incorrectly: it was either switch IDs or have his friend suffer. In fact, there were alternatives, but Benny did not think them through. James would have received his emergency treatment at the first hospital. If the surgery was not something necessary to preserve his life, he would have been transferred to another hospital, such as a county hospital, where care is provided without regard to whether the individual has insurance. No one was asking questions about the care. They made assumptions and committed fraud to be certain there was medical care.

- b. While the fact that there was lying and fraud involved cannot be changed, the circumstances, as well as Benny's misunderstanding about the availability of medical care, should have some impact on the punishment for the three individuals. It is proper and fair to require reimbursement. However, Benny's lack of criminal intent should be considered as a factor in determining whether jail time is appropriate. Some other form of punishment such as restitution along with community service or the funding of a program of medical insurance coverage for those without would seem to suit the situation better than imprisonment.
- c. Benny's employer probably had little choice but to report the problem because the impact on its insurance costs was perhaps tremendous because of the extensive nature of the injury and care. The employer could not be expected to lie to the insurer about Benny's presence at work after such major surgery. In short, the employer could not be asked to participate in the fraud. However, the employer could have served as a character witness if Benny was a good and stable employee. Further, the employer might have been more understanding about Benny's motivations. On the other hand, from the employer's perspective, it is difficult to send a strong message to employees about insurance fraud if Benny is retained.
9. Althea Caldwell is the director of Arizona's Department of Health Services (DHS). DHS is charged the administration of the state's behavioral health system and is responsible for contracting with private providers for millions of dollars of mental health care each year for eligible patients.

Ms. Caldwell accepted a \$20,000 per year director position for a hospital group corporation. One of the hospitals in the group was one to which state contracts for mental health treatment had been awarded.

One month after accepting the position, Ms. Caldwell asked the state's attorney general for an opinion as to whether she had a conflict of interest.

Does Ms. Caldwell have a conflict of interest?

SUGGESTED ANSWER:

Ms. Caldwell has a classic textbook conflict of interest. You cannot be the state official responsible for awarding contracts AND the director of a company that owns one of the facilities bidding for those contracts. The \$20,000 is a quid pro quo -- a position awarded with compensation with the hope of gaining an edge in the state agency's award of contracts.

10. Stanford University medical researchers conducted a study on the correlation between the use of fertility drugs and ovarian cancer. Their study, published in the *American Journal of Epidemiology*, concludes that the use of the fertility drugs, Pergonal and Serophene, may increase the risk of ovarian cancer by three times. The lead author of the studies, Professor Alice Whittemore, stated, "Our finding in regard to fertility drugs is by no means certain. It is based on very small numbers and is really very tenuous."

FDA Commissioner David Kessler would like the infertility drug manufacturers to disclose the study findings and offer a warning on the drug packages. He notes, "Even though the epidemiology study is still preliminary, women have a right to know what is known. We're not looking to make more of this than there is."

If you were a manufacturer of one of the drugs, would you voluntarily disclose the study information?

SUGGESTED ANSWER:

Given the history of asbestos, the breast implants, and other products covered in the text, it is not difficult to spot a similar pattern here. Although the law may not require disclosure, the ethical tests of balance and "how would you want to be treated?" point manufacturers in the direction of disclosure. Full market information requires that buyers make choices based on full disclosure. Without the study information, making those decisions becomes one-sided. The drug firm has more information that is not available to their purchasers. Further, the history of the cases mentioned demonstrates that firms are always better off financially if they make the disclosure and allow the market to function than if they withhold the information and must later defend product liability suits. The disclosure should be made not only from an ethical perspective but also from a financial and litigation perspective.

11. Raymond Randall is an attorney with the Federal Trade Commission. A 19-year veteran with the agency, Mr. Randall was known as a good trial attorney. The FTC charged William Farley, the chairman of Fruit of the Loom, Inc., with violations of the reporting provisions of the Hart-Scott-Rodino Act, when he purchased shares of West Point-Pepperell Corporations prior to a Fruit of the Loom takeover bid. The Hart-Scott-Rodino Act requires investors to notify the government when their holdings in a firm pass \$15 million.

The FTC sought a fine of \$10,000 per day against Mr. Farley, for a total of \$910,000. Mr. Farley did not notify the FTC once Fruit of the Loom made its decision to acquire West Point-Pepperell. Randall was assigned the Farley case. The FTC took a position of refusing to disclose to Farley and his attorneys documents relating to the case. Mr. Randall felt that the documents pointed to weaknesses in the FTC case and supported Mr. Farley's point that he notified the FTC once the takeover position was announced. Mr. Randall leaked the documents to Mr. Farley's lawyer.

Mr. Farley's lawyers were concerned that they should not be in possession of government documents returned the documents and resigned from the case because they had seen the documents. Mr. Farley's new attorneys went to court demanding production of the documents. The documents were ordered produced by the court. When the FTC refused to produce them, the case against Mr. Farley was dismissed by a federal district judge.

- a. Did Mr. Randall do the right thing in disclosing the documents to Farley's attorneys?
- b. Did Mr. Farley's lawyers do the right thing in returning the documents to the FTC?

SUGGESTED ANSWERS:

- a. Mr. Randall was engaged in a form of civil disobedience. He knew that the documents were government property and enjoyed the protection of the courts, but he also felt that Mr. Farley was being prosecuted without sufficient evidence. Mr. Randall's principles, values and ethics took control of the situation and he sent the documents as a means of allowing Mr. Farley access to the information. It is important to note that Mr. Randall's action should have been his last choice. Did he go to those within the agency and attempt to resolve the problem? He should also consider his loyalty to his employer and his responsibilities as an attorney before taking the action that he did which was a form of civil disobedience.
 - b. Mr. Farley's attorneys acted with the utmost integrity in returning the documents and resigning from the case. They made some difficult choices and not only followed the law but then resigned from the case because they had seen things they were not permitted to see. Their forthright actions probably helped Mr. Farley with the court and provided great credibility for Mr. Farley and his new attorneys as they successfully pursued the dismissal.
12. Frank Hoffman is the CEO of Triple Plus, Inc., a group of four successful restaurants in the Southwest. One member of the Triple Plus board of directors, Sam Wasson, has a daughter,

Chelsea Wasson, who has just started Chelsea's Cloths, a business that supplies restaurant linens. Wasson has approached Hoffman to explain Chelsea's business. Chelsea's Cloths has adopted an environmental emphasis in its operations as a way of countering the industry trend toward the use of paper products in restaurants. Sam Wasson initially recruited Hoffman as CEO, was instrumental in having the board select Hoffman, and is one of Hoffman's strong backers. Wasson supported Hoffman when other board members were impatient with his new procedures, policies, and changes.

Ordinarily, when someone approaches Frank Hoffman with information on a new supplier, he takes the information and refers it to the purchasing/supply area or refers the person directly to the manager of purchasing. In this case, Frank personally presented the information to Triple's purchasing manager, Deidre Hall. Frank offered Deidre the Chelsea's Cloths brochure and card and explained, "She is Sam Wasson's daughter. She just graduated in marketing from State University last June and now has her own firm. See what you can do. Our contract with Lila's Linens is up for renewal. Maybe we can do something."

Deidre evaluated Chelsea's and Lila's proposals as well as that of an additional firm in making the purchasing decision. Although the pricing between Chelsea's and Lila's is equivalent, Chelsea's is too young a firm to have a track record, and Deidre is not convinced that Chelsea's can handle Triple's large account. Given Mr. Hoffman's interest, however, Deidre is confused about what recommendation to make.

- a. Should Deidre recommend Chelsea's firm or offer her true recommendation?
- b. Would it be ethical for Hoffman to change Deidre's decision?
- c. What if Wasson had requested bid information so that his daughter could be competitive? Should Deidre supply it? Should Hoffman direct Deidre to supply it?
- d. Can you solve the conflict without offending the director?
- e. Does Hoffman need to be concerned about how his intervention would reflect the "tone at the top"? Could employees misinterpret his actions?

SUGGESTED ANSWERS:

- a. Deidre is in a tense spot with which students can identify. They know the correct decision to be made but may be feeling some pressure from a superior to make a different decision.

Deidre should make her recommendation as she has evaluated it and give her justifications. It is a business decision based on concerns about the viability and reliability of a new business. Deidre can also explain that Chelsea's is price-competitive and that she would be willing to consider Chelsea's once more references and a track record are available.

- b. Hoffman should not reverse Deidre because it undermines her authority and confidence as the person responsible for purchasing. Also, Hoffman needs to consider the appearance of board presence and pressure being used to force the company to enter into contracts it would otherwise not choose. Troubles in the company at any time will bring a laundry list of these types of transactions that will prove damaging to Hoffman, Triple Plus and Chelsea's. Hoffman is in a position to explain to Wasson that his daughter's firm looks very good to them and that once she establishes a record with some smaller accounts, purchasing would be willing to have her work with them.
- c. No bid information should be given to Chelsea's as a favor to Sam Wasson. See below.

- d. Many corporations' ethics policies require directors to disclose conflicts of interest; i.e., situations in which they or a family member benefit through a contractual relationship with the corporation. Wasson may have that obligation here.
- e. Hoffman's intervention would send a signal to employees about the way the company does business and how contracts are awarded. It may seem like a one-time intervention, but Hoffman would actually be establishing the tone for the company. Employees would learn that who you know is the standard for behavior and not what's best for the company. Hoffman's intervention would do damage to the ethical atmosphere of the firm.

Legal Issues

Both Sam Wasson and Frank Hoffman are fiduciaries of Triple Plus. The transactions they enter into must be in the best interest of the corporation. Since the purchasing manager's decision has been made, neither should use their authority or influence to change that decision. Further, the disclosure of bid information in advance would be a violation of those fiduciary duties.

13. Lee Iacocca, chairman and CEO of Chrysler Corporation, announced on January 27, 1988, that the automaker would be closing its Kenosha, Wisconsin, plant. Iacocca and his board of directors were under significant pressure from shareholders due to Chrysler's continuing poor financial performance. Chrysler had acquired the Kenosha plant when it purchased American Motors Corporation in 1987. In his announcement, Iacocca blamed national trade policy for Chrysler's declining sales and resultant earnings problems.

At the Kenosha plant, which manufactured the Dodge Omni and the Plymouth Horizon, 5,500 of the 6,500 workers were to be laid off and production moved to a Detroit plant. Kenosha, a city of 77,000 on the shores of Lake Michigan, depended heavily on Chrysler's presence.

The announcement of the closing came at a critical time. Chrysler was negotiating to renew its contract with the United Auto Workers (UAW). Also, the Kenosha plant carried a history of union financial assistance. The UAW had loaned American Motors over \$60 million to keep the Kenosha plant running, and Chrysler had assumed the loan obligations as part of the acquisition. Also, Wisconsin had paid \$5 million for job training at the Kenosha plant in 1987 after Chrysler promised that the plant would build Omnis and Horizons for at least five more years.

Peter Pfaff, a member of the UAW Local 72 of Kenosha and an employee at the plant since 1972, said: "I was there. We've got it on tape and in writing. They said they'd stay. Greenwald (then Chrysler Motors chairman) keeps saying Chrysler never said that, but I was there when he said it."

The Kenosha local threatened to delay negotiations on renewing the national contract with 64,000 workers. After the threat, Iacocca announced that Chrysler would establish a \$20 million trust fund to aid the 5,500 Kenosha workers through housing payments and educational funding. This fund would be in addition to severance pay, extended unemployment benefits, and repayment of the UAW loans. While denying that Chrysler was setting a precedent, Iacocca declared it had a "moral obligation" to Kenosha.

Wisconsin threatened to sue Chrysler over the job training program but agreed to hold off in exchange for Iacocca's promise to extend production at the plant for several months into the fall of 1988.

Iacocca stated that Chrysler was "guilty as hell of being cockeyed optimists. Blame us for being dumb managers, for spending \$200 million to put two old cars (the Chrysler Fifth Avenue and the Dodge Diplomat) in an eighty-six-year-old plant, but please don't call me a liar when I've got to

close it sooner than I thought.” Iacocca sought congressional support for converting the Kenosha plant to defense work by Chrysler.

Chrysler and the UAW negotiated a contract that provided additional unemployment benefits for the 5,500 laid-off workers and more job security for the 1,000 workers who would transfer to other Chrysler operations. Ultimately, the plant closing resulted in 3,700 layoffs.

By mid-1990, Kenosha was enjoying unprecedented economic growth. At a July 1990 ceremony in which engineers detonated explosives to destroy the 250-foot-high smokestack of the Chrysler plant, dignitaries and former workers cheered. Kenosha resident T. R. Garcia said at the blasting, “I think it’s about time they got rid of it. What we need to do is develop the lake front, and this thing is the last to leave.” City planner Ray Forgianni, Jr., added, “The community’s image is probably the best it’s been in 100 years. The closing was almost like a catalyst. The handwriting was on the wall—the economy needed to diversify.”

- a. Did Chrysler have a moral obligation to the Kenosha workers and Wisconsin, or was it just responding to pressure?
- b. Do arrangements like Chrysler had with the UAW loans and Wisconsin interfere with the ability to make business decisions? Review Iacocca’s quote on business mistakes as you evaluate the issue.
- c. Were the shareholders required to pay twice for the closing – once in severance pay and again in extended benefits?
- d. Was Chrysler simply putting its duty to shareholders above its duty to Wisconsin, Kenosha, and its workers? Is this proper? Is it ethical?
- e. Was Chrysler’s action just a catalyst for needed economic development?
- f. Iacocca, after having stepped down as chairman of Chrysler, made a takeover offer for Chrysler in 1995. What would Chrysler’s ethical culture be like if Mr. Iacocca had succeeded in his takeover bid?

SUGGESTED ANSWERS:

- a. There are differing schools of thought in ethics regarding the obligation of employers who close down plants to the workers from that plant and the communities in which they are located. One group imposes an obligation on the employer to leave the town whole. This obligation requires placement of the workers and economic redevelopment of the community all at the employer’s cost with some contributions from governmental entities.

Another school of thought sees such additional obligations as a double tax to shareholders. Not only must they bear the cost of the cutbacks and economic downturn, they must now ensure that the workers and the community do not have to share in such losses. This view advances the notion that workers are always insulated from financial losses and economic downturns and may not have the appropriate incentives to retool.
- b. Obligations to restore the workers and communities add costs to downsizing and prevent flexibility in making allocation and resource decisions. An additional cost is added to becoming more efficient and the incentives may make it easier to remain inefficient.
- c. The rights of shareholders are often ignored in the interest of protecting the employees and communities. On the other hand, the communities give the employers the right to use the air and water sheds and the opportunity to benefit from the support of the government resources and often tax breaks.

- d. Yes, Chrysler defined its duty as first and foremost to its shareholders. Businesses do have a primary obligation to their investors, but Chrysler did take on more investors here (community).
 - e. Chrysler's withdrawal may have ultimately benefited the community.
 - f. Mr. Iacocca's focus would be on Chrysler's earnings. There are ethical risks with such a focus.
14. Discuss why Goldman Sachs was a disciple of Albert Carr's theory of "business is a poker game and we are all bluffing."

SUGGESTED ANSWER:

Students should discuss the "toes to the line" approach of Goldman on analysts vs. strategists and sophisticated investors. Also, Goldman managed to interpret the law so that it did not disclose its position in the Abacus deal nor did it disclose until AFTER the collapse of the market that it was taking positions against those of its clients. Goldman also did not disclose its role in setting prices in the auction-rate securities markets. The students should discuss whether this was a card up the sleeve or whether this was simply bluffing. The case indicates a split in views between Goldman and outsiders on whether they behaved ethically and honored their fiduciary duties. The case is, therefore, a classic illustration of one of the flaws in Carr's theory – we all don't share the same perception as to what is bluffing and what is a card up the sleeve.

15. In May 2010, Martha Stewart gave an interview to the *New York Times* magazine in which she was asked, "Do you find it odd that the SEC investigated you for insider trading, which resulted in your conviction in 2004, while letting a sociopath like Bernie Madoff run unchecked?" (Mr. Madoff ran a \$50 billion Ponzi scheme). Ms. Stewart responded, "Let me just say one thing. They should have been paying closer attention to other things." She then added that she never stole anyone's money like Madoff did.

Evaluate Ms. Stewart's comments in the context of ethical analysis, a credo, and her attitude about ethics in business.

SUGGESTED ANSWER:

Students should discuss the fact that Ms. Stewart sees her conduct as very different from Mr. Madoff's but they both broke the law, they both took advantage of other people in business, and they both tried to hide their conduct in order to continue to make money. There is an inability to do the introspection on our own conduct to see what we are doing or have done. Ms. Stewart goes by degrees – it is not that the conduct is wrong – it is how much of the conduct that is done that controls her view of right and wrong. Magnitude is the issue, not the conduct.

16. Susan is interviewing for a position in purchasing with a major international retailer. Susan would like to go into consulting and sees this job, if she gets it, as experience for joining a consulting firm in 2-3 years. The interviewer asks Susan, "Where do you see yourself in five years?" Susan replies, "Working here...and I probably would have moved up to head one area of purchasing." Evaluate Susan's response, considering ethical categories and applying the readings from Unit 2.

SUGGESTED ANSWER:

Susan is giving a false impression and/or bluffing to get the job. She is taking advantage of the company.

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