

Business Law Exam 2 Study Guide

Further Study Resources available @

<https://myhome.cengagebrain.com/cb/>

Email- adm10e@my.fsu.edu

Password- Overlook1

This information will allow access to quiz questions and flashcards.

Chapter 4 Ethics and Business Decision Making

The Scope and scale of corporate unethical behavior, especially in the financial sector, skyrocketed in the first decade of the twenty-first century.

Ethics- Ethics can be defined as the study of what constitutes right or wrong behavior. It is a branch of philosophy focusing on morality and the way moral principles are derived. It has to do with the fairness, justness, rightness, or wrongness of an action.

Business Ethics- Business Ethics focuses on what is right and wrong behavior in the business world. It has to do with how businesses apply moral and ethical principles to situations that arise in the workplace. Business Ethics may be more complicated than personal ethics.

An in depth understanding of business ethics is important to the long run viability of any corporation today.

Unethical corporate decision making can negatively affect suppliers, consumers, the community, and society as a whole.

Moral Minimum- The minimum acceptable standard for ethical business behavior. This is normally considered to be compliance with the law. The baseline of moral minimum is legal compliance. If you're complying with the law you are generally safe.

Establishing a code of ethics within a company is a way to create a moral minimum for employees.

Public opinion is the aggregate of individual attitudes or beliefs. Public opinion can also be defined as the complex collection of opinions of many different people and the sum of all their views, or as a single opinion held by an individual about a social or political topic.

The law does not- and cannot- codify all ethical requirements.

The government is not here to legislate morality

Business Firms can usually predict with a fair amount of certainty whether a given action would be legal.

The law contains numerous "gray areas", making it difficult to predict with certainty how a court will apply a given law to a particular action.

Because a business has no way of predicting how a specific court will decide these issues, decision makers need to proceed with caution and evaluate an action and its consequences from an ethical perspective.

Generally, if a company can demonstrate that it acted in good faith and responsibly under the circumstances, it has a better chance of successfully defending its action in court.

When all firms strictly adhere to the goal of profit maximization, resources tend to flow to where they are most highly valued by society. So ultimately, profit maximization, in theory, leads to the most efficient allocation of scarce resources.

Corporate executives and employees have to distinguish between short run and long run profit maximization.

In the short run, a company may increase its profits by continuing to sell a product, even though it knows the product is defective.

In the long run, because of lawsuits, large settlements, and bad publicity, this type of ethical conduct will cause profits to suffer. Thus, business ethics is consistent only with long-run profit maximization.

An overemphasis on short-term profit maximization is the most common reason that ethical problems occur in business.

Example: Oxycontin company executives knew that the drug had the potential to be addictive, but kept the risk a secret to boost sales and maximize short term profits. However they later plead guilty to criminal charges because they misled regulators, patients, and physicians. They had to pay 600 million in fines.

One of the more important ways to create and maintain an ethical workplace is for top management to demonstrate its commitment to ethical decision making.

Managers who set unrealistic production or sales goals increase the probability that employees will act unethically.

Managers who cheat teach employees that such behavior is acceptable.

Managers who "look the other way" when they know about an employee's unethical behavior also sets that example.

Even discharging just one employee for ethical reasons has a tremendous impact as an unethical deterrent.

A court can sanction unethical business owners and managers, and it can also issue an injunction that prevents them from engaging in similar patterns of conduct in the future.

The most effective ways of setting a tone of ethical behavior within an organization is to create an ethical code of conduct.

The code of conduct indicates a company's commitment to legal compliance, welfare of customers, its employees, and its suppliers.

Firms should offer some form of ethics training to employees because if a firm is accused of an ethics violation, the court will consider the presence or absence of such training in evaluating the firm's conduct.

The Sarbanes-Oxley Act- The Sarbanes-Oxley Act of 2002 requires companies to set up confidential systems so that employees and others can "raise red flags" about suspected illegal or unethical auditing and accounting. Companies have thus implemented online reporting systems to accomplish this goal. One of these systems is known as EthicsPoint, and employees can use it to report suspicious accounting practices, sexual harassment, and other possibly unethical behavior.

One of the best ways to learn the ethical responsibilities inherent in operating a business is to look at the mistakes made by other companies. The following are examples of ethical misbehaviors used by companies in the past.

Corporate Stock Buybacks- The management of a corporation believes that the market price of its shares is "below their fair value." So instead of issuing dividends to shareholders or reinvesting profits, management uses the company's funds to buy its shares in the open market, boosting the price of its stock. Since corporate executives are given stock options, which enable them to buy shares of the corporation at set price, they benefit by selling their shares and making a profit when the market price exceeds this level. This IS legal, but can be abused when managers use them to increase stock price in the short term so they can profit without thinking of the long term needs of the company.