

Instructor's Manual
Canadian Business and Society
Ethics, Responsibilities and Sustainability 3e

Chapter 2 – Ethics and Capitalism

The purpose of this chapter is to expose students to the economic environment, and specifically to capitalism. Students must be familiar with the fundamentals of capitalism as they are at the root of many issues and responsibilities faced by business.

CHAPTER GUIDE

Use of the “What would you do if ...?” Vignette

Comments for Instructors

Most students will be aware of the Occupy Movement and some might have been involved. Generating a classroom discussion should not be difficult even though the movement has declined. The discussion of the Movement's grievances or aims relates to several fundamentals of capitalism, in particular, individualism and economic freedom, equality of opportunity, profits, the work ethic and the role of government. It also illustrates the importance of social media in mobilizing protests.

In 2013, Statistics Canada issued Income in Canada 2010 (available at <http://www.statcan.gc.ca/pub/75-202-x/75-202-x2010000-eng.htm>) and contained some statistics relating to the 1%. The lowest income of a person in this group was \$201,400 (versus \$352,000 in the US) and made up 10.6% of the national income (24% in the US). This indicates that income inequality is not as extreme in Canada as in the US.

Questions that might be posed are:

- Who is responsible for the dissatisfaction with the current economic, social and political systems?
- Are the grievances legitimate?
- What grievances can be attributed to the capitalistic economic system in the United States and Canada?
- What grievances can be attributed to governments?
- What danger is this movement to the business system in Canada?
- Will the movement survive or be resurrected? If not, will dissatisfaction with business and governments re-emerge in another form?
- What should Stephen do? A class vote might lead to interesting results!

An assignment on the movement is possible, for example, “The Occupy Movement and Business.” Students could interview those participating in the movement to ascertain their views about business or capitalism.

Another assignment or debate topic is: Should the rich be taxed more?
 The following are some points under the Yes and No positions:

Yes. Tax them!	No. Does not make sense!
<ul style="list-style-type: none"> • Would raise a lot of revenue • Will reduce inequality by supporting social programs • Everyone must pay their share (aspect of social contract with society) • Inequalities weaken the economy, undermine our democracies, and destabilize societies • Extreme inequality is socially unjust and politically dangerous • In furthers social justice and equal opportunities • Middle class is being reduced as a result of transfer to the rich • Some claim the high taxes on the rich leads of economic growth 	<ul style="list-style-type: none"> • Does not raise much revenue; in fact some claim will raise more by cutting taxes (Laffer curve) • Does not help lower income earners • Government already trying to reduce inequality through social programs and progressive taxation • Encourages use of loopholes and transfers to offshore locations, that is, hiding of income • All (low and middle income) in society are richer than they think as enjoy high standard of living • Discourage job creation as rich do not start as many businesses and invest less in innovation • It is punishment for success and reduces the incentive to work

The material in this vignette can be supplemented by having students learn more about the Occupy Movement from the following sources:

1. Internet sites, including:

- www.occupywallst.org
- www.occupywallstreet.org
- www.occupywallstreet.net
- www.occupytogether.org
- www.occupycafe.org
- www.interoccupy.org

There are many others, and the catchphrase “Occupy x” can be used to access others.

2. Books. If students are serious, or if involved with an assignment, the following are some of the books written on the movement:

- *Occupying Wall Street: The Inside Story of an Action that Changed America*, Haymarket Books, 2012 (contents contributed by “Writers for the 99%”).
- Janet Byrne (ed.), *The Occupancy Handbook*, Back Bay Books, 2012.
- Astra Taylor *et al*, *Occupy! Scenes from Occupied America*, Verso, 2012.
- Chris Faraone, *99 Nights with the 99 Percent: Dispatches from the First Three Months of the Occupy Revolution*, Write to Power, 2012.

- David Graeber, *The Democracy Project: A History a Crisis, a Movement*, Spiegel and Grau, 2013.
3. Documentaries. Documentaries are based on the Movement include:
- *Assault on Wall Street* Trailer: <http://www.youtube.com/watch?v=8Y-NqShTj5w>
 - *Occupy: The Movie*. Web site: <http://www.occupythemovie.com/>
 - Many short videos are on YouTube, for example. *I Am Not Moving*, and *How to Resurrect Occupy Wall Street: The 99% Will Rise Again*

Refer to “Your Advice to Stephen...” page 43.

LO2.1 Introduction

Enumerate and discuss the eight fundamentals of a capitalist business system.

This section is to make the point that a capitalistic, market system provides a majority of goods and services to Canadians. Students might be asked, “What goods and services did you receive from business today?” This leads into the first *Everyday Ethics* insert.

Everyday Ethics 2.1: How Business Works for You

The list provided could be extended. The point being made is the extensiveness of business in our daily lives, including students’ lives. Of particular interest is the fact that government does not provide many consumer goods or services. There are exceptions, for example health care and publically financed education.

LO2.2 The Right of Private Property

Define the right of private property and identify ethical implications associated with it.

Everyday Ethics 2.2: First Nations and Property Rights

This *Everyday Ethics* insert is longer than most as the issue is complicated. Property is considered differently in societies as property is viewed as belonging to the community or a collective. Converting from collective to individual property rights is challenging. Most students will not appreciate the differences.

As students may not be familiar with intellectual property, a useful Canadian resource is the Canadian Intellectual Property Office which describes five types:

- Patents
- Trade-marks
- Copyrights
- Industrial Designs
- Integrated Circuit Topographies

- Plant Breeders' Rights

The intellectual property that students are most likely to encounter are copyrights, trademarks, and industrial design. Brief descriptions of each are available at:

http://www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/h_wr00503.html.

More information can be obtained at: http://www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/h_wr00330.html.

CONNECT: Want to learn more about intellectual property?

Intellectual property has been, and will continue to be, as major issue in business and society.

You may not be aware of the existence and extent of intellectual property issue. The property involved is intangible, unlike land and buildings upon which traditional property rights was based. You may be violating intellectual property laws in downloading entertainment and copying materials. Also, it is possible to have purchased counterfeited or pirated goods of designer name products and computer software.

Have you violated any intellectual property rights in the past week?

What are the ethical implications?

Whom did you harm as a result?

More information is available at:

- The Canadian Intellectual Property Office is a source for more information at: http://strategis.ic.gc.ca/sc_mrksv/cipo/corp/corp_main-e.html.
- Intellectual property case studies are available at: <http://www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr01947.html>. Some involve ethical issues.

Economies are impacted by globalization and technological advances increasing the importance of another type of private intellectual property. The World Intellectual Property Organization is attempting to have international treaties established to protect intellectual property considered a key to innovation in a knowledge based economy. In the past, there have been debates about the value of personal property rights versus providing incentives for innovation and investment, and about governments granting and removing monopoly rights. These debates will continue as the economy moves more toward property rights based on the concept of intellectual property.

LO2.3 Individualism and Economic Freedom

Explain individualism and economic freedom and related ethical implications.

Two web sites provide more information on economic freedom measures:

- “Free the World” (Economic Freedom Network): <http://www.freetheworld.com/>
- “Index to Economic Freedom” (Heritage Foundation and *Wall Street Journal*): <http://www.heritage.org/index/>

These sites define the freedoms and describe how they are calculated. Students are always interested in the economic freedoms not only for Canada but for other countries. Accessing either site provides country rankings. Also, international students can access the rankings for their countries and compare them to Canada’s.

Updated Information:

Access the two freedom measures for recent rankings. In the “Free the World” measure Canada was tied for 5th place and in the “Index to Economic Freedom” 6th in the rankings available in May 2013.

Responsibility for Ethics 2.1: Economic Freedoms

This is a general listing of the factors of economic freedoms. The two sources listed above differ in how economic freedom is measured. Use of one or the other as indicated above is sufficient.

LO2.4 Equality of Opportunity

Define equality of opportunity and elaborate upon the ethical implications for business.

It is important to make the distinction between “equality of opportunity” and “equality of results.” Many media stories focus on the latter, but few on the former. The equality of opportunity is a lesser known fundamental of capitalism but is being illustrated in some developing countries as their economic systems begin to adapt a market system. Of course, a criticism of capitalism is inequality of results, that is, not everyone receives the same economic benefits. One reason for this is that everyone does not have the equality of opportunity.

Everyday Ethics 2.3: Executive Compensation

Executive compensation is major issue in business and receives extensive coverage in the media. There may be some strong views on the topic!

Discussion Question:

Is anyone worth \$36 million, \$14 million or even \$1 million?

As an illustration of a corporation’s policy towards executive compensation (and how it is calculated), visit the corporate governance section of a major public company. Reviewing the policy will increase students’ understanding of how executives are

compensated (but may not change their views!).

Another component to executive compensation is the pension. Refer back to *Instructor's Manual* Chapter 1 and the answer given for the end of chapter case, "The Pillaging of Pensions." As employers are collapsing defined benefit pension plans for employees, Boards of Directors are approving increasingly large and expensive defined benefit plans for CEOs.

For a controversial view of executive pay, students can visit Executive PayWatch at <http://www.aflcio.org/corporatewatch/paywatch/>. The statistics are American but the issues raised are the same.

Canadian data is available at the "Growing Gap" Project of the Canadian Centre for Policy Alternatives at <http://www.policyalternatives.ca/projects/growing-gap/>. It examines the increasing gap between rich and poor Canadians and not only in income but also the lack of opportunities available to some segments of the population.

Additional Information: Executive Compensation

- The relationship of highest paid CEOs to the average Canadian income has changed over the years. In 1998, the top CEOs' income was 105 times the average Canadian's. By 2010, the top CEOs' income had become 189 times the Canadian average. This is one indication of the widening gap in Canadian income inequality.
- The Church Investors Group in the UK has published a guide titled *The Ethics of Executive Remuneration: A Guide for Christian Investors*.

The recommendations of the report were:

1. Investors should be most concerned about pay for the poor.
2. Investors should consider corporate pay differentials as more important than absolute pay packages.
3. Investors need to hold executives to account over performance – with an emphasis on sustained performance.
4. Investors should discourage companies from seeking to compete with one another through levels of executive remuneration...
5. Investors should dissuade companies from offering pay packages which encourage high-risk behaviour.
6. Investors should encourage companies to adopt simple and transparent packages of executive remuneration in order to facilitate accountability.
7. Where companies operate executive remuneration policies at strong variance with these recommendations and investor engagement with a company does not lead to any change of policy, disinvestment should be considered.

The guide can be downloaded at <http://www.churchinvestorsgroup.org.uk/documents/ethics-executive-remuneration-guide-christian-investors>.

Additional Information:

The Conference Board of Canada has a report on Income Equality at <http://www.conferenceboard.ca/hcp/details/society/income-inequality.aspx>. The response to the question "Why should we care about rising income inequality?" is of particular interest.

LO2.5 Competition

Describe the competition fundamental and link ethical implications to it.

Competition can result in cruel and cut throat behaviour. But, its benefits should not be underestimated. In particular, consumers (including students) benefit from it!

Everyday Ethics 2.4: Consequences of Restricted Competition

This Everyday Ethics illustrates the consequences when there is a lack of, or when there is weak, competition.

Another example is the real estate business and its listing and pricing practices. A search of the Competition Bureau web site at <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/home> will provide up-to-date information on attempts to make the industry more competitive.

Additional Responsibility for Ethics: The High Cost of Your Cell Phone

A study by the Organization for Economic Co-operation and Development (OECD) found that Canadians paid some of the highest prices for cell phone usage in 30 developed countries. The study examined cell usage by three categories: low, 360 voice calls, 396 short texts, and eight multimedia messages per year; medium, 780 voice calls, 600 short texts, and eight multimedia messages per year, and high, 1,680 voice calls, 660 short texts, and 12 multimedia messages. For low usage, Canada was the 11th most costly, for medium the 3rd most costly, and for high the 12th most costly.

The explanation of the high cost relates to the lack of competition and government policies in Canada. The three main national providers, Bell Canada, Rogers Communications, and Telus Corp., have very similar rate plans. In addition, the plans and the charges are very complicated, making it difficult to compare services and pricing. Long-term contracts and, until recently, lack of number portability have reduced the possibility of switching providers. Critics claim that the providers are engaged in oligopoly market behaviour, where few sellers do not use price to attract customers and offer almost identical services. Weak regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) was also blamed for higher costs in Canada.

The government controls the cell phone airwaves. In 1995, two new operators purchased airwaves, but they were later bought out by Rogers and Telus. Competition is further restricted by the government's foreign investment policy, requiring substantial Canadian ownership of any provider. This policy was relaxed in December 2009 when the Government allowed Globalive Wireless Management Corp. to cooperate even

though foreign controlled. Also, the Government plans to encourage competition by offering more airwaves for new cellphone carriers in 2010.

The OECD study also noted that Canada had the lowest resident rates for wire services. Industry spoke persons questioned the applicability of the study as the average Canadian cell uses more than 500 voice minutes a year.

The industry is sensitive to the issue and in August 2009 published a Code of Conduct for Wireless Service Providers that included a promise to provide customers with complete details on the rates, terms, and coverage on all cellphone plans.

In June 2013, the CRTC released the Wireless Code. Information available at: http://www.crtc.gc.ca/eng/info_sht/t13.htm.

Sources: *OECD Communications Outlook*, Organization of Economic and Co-operation and Development, August 11, 2009 accessed at http://www.oecd.org/document/20/0,3343,en_2649_201185_43471316_1_1_1_1,00.html, and Simon Avery, "Cellphone talk isn't cheap," *The Globe and Mail*, August 12, 2009, B2; Peter Nowak, "Canadian cellphone rates among world's worst," CBC News Online, August 11, 2009 accessed at <http://www.cbc.ca/technology/story/2009/08/11/canada-cellphone-rates-expensive-oecd.html>; Grant Robertson, "Ottawa rewrites the rules on telecom ownership," *The Globe and Mail*, December 12, 2009, A1, A6; Jamie Sturgeon, "Wireless firms vow to follow code of conduct," *National Post*, Sept. 2, 2009, FP15; and "CWTA's Code of Conduct for Wireless Service Providers," Canadian Wireless Telecommunications Association web site at <http://www.cwta.ca>.

Competition in the cell or wireless phone business is changing. In 2010, more providers were entering the market, but their impact was not clear. As of 2013, foreign providers are being allowed to enter the Canadian market.

Discussion Questions:

How much do you pay for your cell phone? Survey students to identify amounts. Did you compare prices among providers (that is, cell phone companies)? If the consumers (students) were serious, they would have done the comparison. But, it is not easy!

What is the nature of competition in the cell phone market? Although several companies offer cell phone service, the complexity in pricing prevents competition. Also, with so few providers, pricing actually may be very similar.

LO2.6 Profits

Understand profits and the ethical implications associated with it.

This is another controversial fundamental. Note the relationship between competition and profits. If competition is effective, there should be no excessive profits.

Everyday Ethics 2.4: Petroleum Industry Profits—Reasonable or Excessive?

Petroleum industry profits are viewed with distrust. This often results from the high price

of gasoline. Depending upon the year students are in, it might be pointed out that these figures are absolute ones, and measures such as return on equity, revenues, or assets are not provided. To make the issue more personal, indicate that petroleum industry profits may be so large because gasoline prices are too high. More information on the Canadian petroleum industry is available at the Canadian Association of Petroleum Producers web site at <http://www.capp.ca/Pages/default.aspx>. No mention of profits could be found. Associated with industry profits are the prices charged for gasoline which most use. This issue has been studied extensively with no definitive conclusion. However, from time to time price-fixing charges are laid.

Discussion Questions:

Are petroleum industry profits too high?

Is the price of gasoline justifiable?

LO2.7 The Work Ethic

Link the work ethic to ethical implications.

This is another fundamental that is frequently neglected in the discussion of capitalism.

Responsibility for Ethics 2.2: Work Ethic of the Millennials

Discuss with students their work ethic. After identifying differing points of view, conduct a vote to ascertain the position of students. Another possibility is to hold a debate with a resolution such as: Resolved that millennials have a poor work ethic.

More information can be obtained by searching “Millennials” or “Millennials Work Ethic.” Examples of information available: “Managing Millennials: Eleven Tips for Managing Millennials” at

<http://humanresources.about.com/od/managementtips/a/millennials.htm>, and “Myths About Millennials” at

http://humanresources.about.com/od/managementtips/a/millennial_myth.htm.

There has been substantial discussion in the print media about millennials from different perspectives in addition to employment. Also, substantial materials are available from the Internet.

LO2.8 Consumer Sovereignty

Define consumer sovereignty and understand related ethical implications.

The theory that consumers have power and even control of the marketplace should be obvious if free markets exist. The difficulty comes when the markets are restricted in some way.

Responsibility for Ethics 2.3: One Consumer Influences Facebook

It is claimed that the Internet is giving power and influence to consumers as illustrated in this insert. The efforts of Canada's Privacy Commissioner relating to the issue of privacy on Facebook were key to bringing about changes. Visit the Privacy Commissioner's web sites in the "Sources."

Another example is payment to a consumer if bumped off an Air Canada flight due to overbooking. Gabor Lukacs complained to the airline regulator, the Canadian Transportation Authority, about the low payout, \$100 cash or a \$200 travel voucher. The Agency agreed with Lukacs and has proposed increasing the payout.

Discussion Questions:

Do consumers have power? Has the Internet increased consumer influence?

What have been your experiences with privacy on Facebook or other social media?

LO2.9 The Role of Government

Explain the role of government in a capitalist business system and what the ethical implications are.

This is a brief discussion of the role of governments and their involvement in the business system. Chapter 10 will discuss the government's approaches to regulating the activities of the corporation.

The point should be made that the role of government shifts over time. The influence of governments around the world increased through most of the 20th century. It was not until the mid-1980s that the influence of governments began to decline.

Responsibility for Ethics 2.4: Restricting Freedom of Commercial Expression

Most think of the right to freedom of speech as being an individual one. But, corporations have a similar right.

Discussion Questions:

Should the right of commercial speech or expression be restricted? Individuals do not have unrestricted rights to make comments about others. For example, they can be sued for slander or libel.

Is it appropriate to restrict the right of commercial expression when harmful products are involved (such as alcohol and tobacco)? If the product is legally sold, some question whether they should be treated any differently.

CONNECT: Want to learn more about business fundamentals and the story of The Little Red Hen?

"The Little Red Hen" is a children's story and there are several versions with different animal characters, and sometimes the "hen" is a roaster. Variations of the story have been

written to send different messages. The version we are interested in illustrates several of the fundamentals of capitalism including individualism and the work ethic.

The story is available in text form at: <http://www.gutenberg.org/files/18735/18735-h/18735-h.htm>.

Or, a video is available at: <http://video.nhptv.org/video/2238435385/>.

What are the lessons in the story? How are they relevant to business? Is the hen being fair?

LO2.10 The Fundamentals and Various Forms of Capitalism

Define Canadian capitalism and recognize that capitalism exists in different forms around the world.

Capitalism differs around the world and the fundamentals are applied differently. Three additional forms are described in this edition:

Conscious Capitalism – A web site is devoted to this form: <http://www.consciouscapitalism.org/>. Some books have been written about the form and a lot of material is available on the Internet.

Creative Capitalism – More information on Bill Gate’s “creative capitalism” is available at on the Internet. Google “creative capitalism definition” and many sites are presented. YouTube has videos on the concept. Ask students to research it and ask what they think of the concept. There are several web sites defining the concept, and a video of Bill Gates explaining is on YouTube.

State Capitalism – This form is not new, but has been receiving more attention recently. For example, *The Economist* had a special report on it, “The visible hand,” in the January 21, 2012 issue. Materials are also available on the Internet.

LO2.11 The Challenges, the Ethics and a New View of Capitalism

Link the fundamentals of a capitalist business system to social and ethical challenges in society and describe a new view of capitalism.

The objective to this section captures the main point. Students should appreciate the different types of capitalism and that they have influences on the ethics and responsibilities of business.

The list of challenges is given to illustrate that capitalism is not perfect or without its faults.

<i>Everyday Ethics 2.6: Gordon Gekko’s “Greed is Good”</i>
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The “Greed is Good” comments appear on YouTube with one at:
<http://www.youtube.com/watch?v=vscG3k91s58>

Discuss with students the appropriateness of the quotation.
Poll the class to identify how many agree or disagree with the comment.

The financial industry, in particular the banking system, and governments are frequently blamed for the financial crisis. Responsibility for Ethics 2.5 identifies other stakeholders that may have influenced the crisis.

Responsibility for Ethics 2.5: Placing Blame for the Financial Crisis

The financial crisis of 2008-2009 (and maybe longer) is considered a major development in the history of capitalism. The topic is also timely and a discussion of who is to blame will provide insights.

CONNECT: Want to learn more about the pros and cons of capitalism?

After reading Chapters 1 and 2, you are able to compile a list of the pros and cons of capitalism.

The debate about the advantages and disadvantages of capitalism continues and is one which you as a business student should be prepared to address. The Internet provides hundreds of sites that contribute to the debate. Below are examples of sites that might be helpful in your becoming familiar with the issues involved. The examples of pro and con capitalism sites are advocates for one side of the debate or the other. The examples of sites giving pros and cons provide a more balanced view of capitalism.

Examples of pro capitalism sites:

- “Capitalism.org.” <http://capitalism.org>
- “Top 10 benefits of capitalism” <http://listverse.com/2010/12/24/top-10-greatest-benefits-of-capitalism>

Examples of anti or con-capitalism sites:

- “Anti-Capitalism” <http://anti-capitalism.org>
- “Anti-Capitalists” <http://anticapitalists.org>

Examples of sites giving pros and cons:

- “Pros and cons of capitalism” <http://www.buzzle.com/articles/pros-and-cons-of-capitalism.html>
- “Pros and cons of capitalism” <http://www.economicshelp.org/blog/5002/economics/pros-and-cons-of-capitalism>
- “Pros and cons of capitalism” <http://www.philforhumanity.com/Capitalism.html>

As a concluding section, the concept of shared value is described as a new view of how business and society can both benefit from a system is sensitive to social responsibility.

Responses to “Critical Thinking and Discussion Questions”

Additional questions relating to the Chapter’s material are available in the Appendix.

1. Identify the intellectual property that you use in your studies? Have you always respected the rights of the owners of this type of private property?

The most obvious example is this textbook. Also included would be videos and films shown in class as well as many web sites. All reference materials in the library are protected, including books, databases, magazines, and newspapers. One must be careful to reference all materials completely and obtain permission to use. This has been done in this textbook.

With regard to the second question, students have likely misused someone’s intellectual property knowingly or unknowingly. There are both legal and ethical implications when intellectual property is used inappropriately.

2. Should equality of opportunity equal equality of results? What are the implications for business of the inequalities that result under capitalism?

Equality of results is a goal of socialism or communism. In reality, no socialist system has resulted in complete equality of results as there are always some elites, for example, politicians or the military. Today, Cuba and North Korea illustrate this. It is argued that such economic systems result in almost everyone being poor.

But, there are challenges to capitalism from equality of opportunity and results. Business must attempt to enable those in society have equal access to opportunities. Business cannot do this alone as government usually assists in some way. The implications of inequality of results are that the system might be challenged by society. When too many in society are under-privileged, the legitimacy of business is questioned.

Refer to the discussion of the opening vignette.

3. Why doesn’t competition exist in some industries, and what are the ethical implications?

Competition does not always exist for a variety of reasons as mentioned. In theory, the more competitive the industry, the more pressure corporations are under to obtain sales. It can be argued that this would result in questionable practices to obtain sales. But, corporations might react another way. They might constantly innovate in terms of the products offered and the production processes used. This

might lead to differentiated and/or less costly products. The former might result in unethical practices; the latter the opposite.

4. Assess the amount of economic freedom in Canada today. How does this freedom, or lack of, influence Canadian businesses?

Note: Check the most recent index for rankings.

On the “Free the World” index, Canada ranks within the top 10 in the world for economic freedom.

It is strongest in “access to sound money” and weakest in “size of government.”

On the “Index to Economic Freedom,” Canada ranks 6th in the world. It is strongest in “business freedom,” and weakest in “investment freedom” and “freedom from government.” The Canadian business system ranks quite well. Note that in both indices, the involvement of government is a problem. After studying the indices, students should reach a similar conclusion.

5. What is the connection between competition and profits?

In theory, competition regulates profits. If excessive profits are being obtained, new sellers are attracted to the industry and thus lowering profits. It does not always work this way but as a general rule it does.

6. Do you believe that employees no longer possess a genuine work ethic?

*A yes or no response is possible. Enough material is provided to support both positions. It is interesting how students view their own work ethic! A COMPAS Inc. poll of CEOs found that 50% of them gave universities and colleges a near-failing grade for instilling “a strong work ethic” in students. [Source: Wojtek Dabrowski, “Colleges Get Minimum Pass for Work Ethic,” *National Post*, January 5, 2004, FP2.]*

7. In the Canadian business, is the consumer sovereign?

The expression “the consumer is king/queen” is often heard. In theory, this is the case. The materials in the chapter support both sides.

8. Is government’s role in the Canadian business system increasing or decreasing?

More about this issue will be available in Chapter 10. Overall, the role of governments has declined in most parts of the world.

9. What individual and societal values are involved with each of the fundamentals? Values are defined as core beliefs or desires that guide or motivate attitudes and actions.

The following are some of the values suggested by students in response to this question.

Values Related to Fundamentals

Values are core beliefs or desires that guide or motivate attitudes and actions. In the matrix below, identify the values associated with the fundamentals of business.

<p>Right of Private Property</p> <ul style="list-style-type: none"> Pride Respect Ambition Security/Control Freedom Dream Inequity Value 	<p>Profits</p> <ul style="list-style-type: none"> Greed Success Risk Power Reward Incentive Motivation
<p>Individualism and Economic Freedom</p> <ul style="list-style-type: none"> Self-determination Self-esteem Ambition/Hard work Individual Choice Independence Inequity Personal freedom Distribution of power Choice 	<p>The Work Ethic</p> <ul style="list-style-type: none"> Well-being Honesty Motivation Security Loyalty Pride/Shame Sacrifice Competence Reliability Hard work Required
<p>Equality of Opportunity</p> <ul style="list-style-type: none"> Fairness Self-determination Creativity Equal playing field Just reward 	<p>Consumer Sovereignty</p> <ul style="list-style-type: none"> Choice Threat Influence Freedom Personal preference Quality Democracy
<p>Competition</p> <ul style="list-style-type: none"> Efficiency Equal opportunity Quality Continuous improvement Value to consumer Initiative Aggressiveness Power Choice 	<p>The Role of Government</p> <ul style="list-style-type: none"> Winning Risk Ambition Individual choice Regulation Innovation Survival Evil Productivity Adversarial <p>The Role of Government</p> <ul style="list-style-type: none"> Inequality/Equality Law and order Security Justice Greater good Interference Bureaucracy Regulating Public Interest Equity Control

10. Does capitalism or the free market system erode moral character?

The John Templeton Foundation has a series of conversations among leading scientists, scholars, and public figures about the “Big Questions” in society and the economy (<http://www.templeton.org/bigquestions/>). There are short video presentations that can be used in the classroom to present a variety of views relating to the question being discussed. A webcast and transcript are also available. For “Does the free market corrode moral character?”, some presenters agree with the question, some disagree, and some are in the middle (<http://www.templeton.org/market/>). The views are:

<i>Agree</i>	<i>In Between</i>	<i>Disagree</i>
Hymowitz	Levy	Bhagwati
Walzer	Novak	Cowen
	Santorum	He
		Ali

Select a diversity of views and use as the basis for a classroom discussion.

Answers to End of Chapter Cases

2.1: Accepting a Job in the Payday Loan Industry

1. What fundamentals of capitalism are relevant to this case?

Individualism and economic freedom – individuals and corporations should be free to do as they wish and long as it is legal.

Competition – with other financial institutions and payday loan companies with one another

Profits – given rates charged and the number of companies in the industry, it is assumed that they are making profits

Consumer sovereignty – consumers should be free to make choices that they consider to be their best interests

Role of government – major involvement in regulation in the public interest

2. Which stakeholders benefit from the payday loan industry and which ones are harmed?

There are some interesting aspects of the stakeholders.

Employees – existing and future benefit as employment is provided (in this case Colin)

Consumers – the customers who are in need of short term financing benefit but are harmed the high interest rates and other charges.

Competition – note the range of competitors: banks and credit unions, credit card companies, loan sharks, and pawnshops. In a way, all are harmed as potential business is taken away.

Government – the regulation of the industry is complicated by the divided responsibilities for regulation between the Federal and provincial governments. As a result, there is a variation across the country complicating operations of the industry and the protection of consumers. Neither benefits or harms but a complicated issue to resolve.

Industry association – there appears to be a fairly well organized association. Their web site summarized conditions in the industry, particularly as it relates to government regulation. But, the association only represents some of the operations in the industry.

3. What are the economic, social and ethical implications or issues in the industry?

There are several:

- *The dangers of borrowing against future income (but, this is the case for all types of loans)*
- *High interest and other charges*
- *Some consumers have no alternative and responding to need in the marketplace.*
- *Possible inadequate regulation*
- *Taking advantage of financially illiterate consumers*
- *Effectiveness of self-regulation by industry association*

A supplementary question is What should be done about the industry's practices?

One possibility is government regulation. Efforts could be made to get consistent regulation across the country.

Government education programs. Programs could inform consumers on financial illiteracy generally and in particular the consequences of payday loans.

Industry self-regulation. The industry association would police members to reduce the worst practices. But, as not all payday loan companies are members is a barrier. Consumers themselves. Consumers have to accept some responsibility for their financial affairs. May be they could reduce consumption of non-essential purchases, that is, live within their means. Consumers have responsibilities too!

4. Should Matthew take the job?

Poll the class and then ask for arguments to support the two possibilities. It is doubtful that all students would decline the job offer!

Additional Resources:

The payday loan industry is extensively discussed on the Internet in Canada and the United States. Some sites that might provide student and instructor resource materials are:

Recent information on the Manitoba Government's legislation is available at:

<http://news.gov.mb.ca/news/?archive=2010-04-01&item=8313>.

More on Canadian Payday Loan Legislation

<http://www.cpla-acps.ca/english/medialegislation.php>.

Canadian Payday Loan Association at: <http://www.cpla-acps.ca/english/home.php>.

2.2: Two-Faced Capitalism: Unmasking Corporate Social Responsibility

1. What are the implications of this report for the fundamentals of capitalism discussed in chapter 2?

Right of private property – use of British courts may impact property in that country.

Economic freedom – proposals would restrict the alternatives open.

Competition – may benefit from problems associated with another corporation in same industry.

Profits – may be impacted by increased costs

Consumer sovereignty – some consumers may be convinced to not use corporation's products.

Role of government – if proposals adopted, role would increase.

2. Should government regulate the social auditing and CSR reporting of corporations?

Government would be entering a whole new area of regulation. It is doubtful that any government would be willing to take this on. But, financial auditing and reporting was not regulated at one time. Pressures from various stakeholders, in particular owners, could result in some regulation about CSR reporting.

3. How should the corporations identified in the report respond?

Consider ignoring – not recommended especially if the NGO has influence.

Credibility at stake so should respond.

Counter attack – give the “facts” of each instance. This would be a defensive move.

Correct alleged problems – work harder at CSR practices

Contact and consult NGO – work with NGO, discuss problems, and how they could be rectified.

Note: the involvement with the NGO increases as one goes down the list.

4. Will this report change the social auditing and CSR reporting practices of the corporations mentioned?

It should. The corporations may not be preparing appropriate reports, not having them properly verified, and not communicating the contents sufficiently, in other words, not getting their side of the story out.

APPENDIX

Question: One of the fundamentals of the business system is the “work ethic.” Today, the perception of an appropriate work ethic has changed in particular as the result of employees and employers not exhibiting much loyalty to each other. Comment on this phenomenon.

Question: There are various forms of capitalism in the world, ranging from “consumer” capitalism in Canada and the U.S. to “frontier” capitalism in China and Russia (other forms of capitalism discussed included “producer” and “family”). What issues will countries presently operating under frontier capitalism encounter as they move toward the consumer type capitalism? What are the implications for business managers and owners who operate in economies where capitalism is in transition? What stakeholders are likely to play leading roles in the transition?

Question: What is the corporation? What is the role of the corporation in society? Is it a person? Can it have a conscience? Is it a pathological evil spirited creation? These questions have been addressed throughout the course. Prepare a brief essay outlining what you think the corporation is and/or what the corporation should be.

Question: Comment on the following quotation using theoretical and conceptual materials covered in the course:

Free markets are not a jungle in which only the unscrupulous survive, or a financial free-for-all guided only by greed. The fundamentals of a free market—buying and selling, saving and investing—require clear rules and confidence in basic fairness.

Source: United States President George W. Bush.

Question: Discuss the following quotation in the context of the materials covered in the course. In particular, comment on the implications for the “ethics of business.”

Free markets are easy to admire but hard to love. Creative destruction, survival of the fittest, the warring impulses of greed and fear—all these dire forces raise living standards in the long run by forcing businesses to improve quality and cut costs. But when a stock market crashes, a big employer goes bankrupt, or a small country suffers a flight of foreign capital, free markets usually get the blame. The losers they produce are obvious; the winners, less so.

Source: Peter Coy, “The Real Enemies of Free Markets,” *Business Week*, March 10, 2003, 22-23.

Question: What is capitalism? Which stakeholders support it? Who are the opponents? What impact do the views of various stakeholders have on managing in the Canadian environment?