Business Ethics and Swedish Advertising Law

Recall from the WH approach to ethical decision making that when businesses make decisions, they should consider *all* the relevant stakeholders. One relevant stakeholder is the customer, or consumer. In Sweden, consumers are assumed to be vulnerable in the marketplace; therefore, protecting the consumer is considered the job of the government. Unlike the case in the United States, in Sweden public policy acknowledges that "there exist large groups of consumers who, owing to low incomes, deficient education and knowledge of the market, etc., are less well equipped than the average citizen for their role as consumers." One group of consumers less equipped than the average citizen in Sweden is children.

The government considers children extra vulnerable and impressionable and thus in need of even more protection than the average consumer. Swedish laws ban all television advertising targeting children below the age of 12. The ban includes not only toy advertisements but also commercials for foods high in fat and sugar, such as sweets and fast food. Advertisements for such products can be aired if the targets of the advertisements are not children. For example, commercials for toys, sweets, and foods high in fat may be aired if they are designed to attract and inform adults as opposed to children. What may surprise many Americans is that almost 90 percent of Swedish advertising professionals are in favor of the ban on advertising to children because they recognize that such advertising is misleading since children do not understand the commercial nature and purpose of advertising.

Value priorities can stem from many sources. Tradition, family, culture, reasoning about the consequences of alternative choices, and a sense of duty or obligation can all fuel the value priorities we bring to an ethical dilemma.

For many people, their preeminent values derive from religious teachings. For example, Catholic social doctrine teaches that the moral quality of a society depends on how it treats its most vulnerable members. Similarly, the United Methodist Church in its 2009–2012 Social Principles document pledges Methodists "to support the poor and challenge the rich."

Take a look at another business situation. Try to express the struggle between Dole and its workers as a struggle between two sets of values rather than simply a contest between people in white hats and villains in black hats. If you can, you will be more fair in your assessment of Dole's behavior. To be fair is not to condone but, rather, to be open to understanding the logic and purposes of all the relevant players in the ethical flashpoint.

stakeholders
The groups of people affected by a firm's decisions.

The WH Framework for Business Ethics

Exhibit 2-2

The WH Process of Ethical Decision Making

1. **W—WHO (Stakeholders):**
   Customers
   Owners or investors
   Management
   Employees
   Community
   Future generations
2. **H—HOW (Guidelines):**
   Public disclosure
   Universalization
   Golden rule

A useful set of ethical guidelines requires the recognition that managerial decisions must meet the following primary criteria (Exhibit 2-2):

- The decisions affect particular groups of stakeholders in the operations of the firm. The pertinent question is, thus, *Whom* would this decision affect?
- The decisions must meet the standards of action-oriented business behavior. Managers need a doable set of guidelines for *how* to make ethical decisions.

WHO ARE THE RELEVANT STAKEHOLDERS?

The **stakeholders** of a firm are the many groups of people affected by the firm's decisions. Any given managerial decision affects, in varying degrees, the following stakeholders:

1. Owners or shareholders.
2. Employees.

The WorldCom Accounting Scandal

WorldCom Inc. was a telecommunications company that began operating in the state of Mississippi in the 1980s. In 1989, WorldCom became a publicly traded corporation; that is, it began selling shares of its company to investors.

In the 1990s, WorldCom became the second largest U.S. long-distance telephone service carrier. In addition, it was a leading operator of Internet services and placed forty-second among the *Fortune* 500 companies in 2001.

As the 1990s came to an end, the telecommunications was expanding and becoming more competitive. Numerous telecommunications companies entered the long-distance communications market, including the local telephone companies and the Regional Bell Operating Companies, and many companies entered the market for Internet services.

Eventually, the supply of telecommunications services outgrew the demand for those services, and the industry experienced a recession—that is, a drop in economic activity. WorldCom's revenue began to fall.

During this time, WorldCom used fraudulent accounting methods that allowed it to overstate its financial status to its shareholders. Specifically, CEO Bernard Ebbers presented a false picture of WorldCom's net worth, informing the Board of Directors of WorldCom that the company would continue growing vigorously. However, Ebbers knew that his projections were inconsistent with WorldCom's declining position.

One reason for boosting the reported revenue of WorldCom is to increase shareholder confidence. In other words, the logic behind Ebbers's fraudulent accounting methods was that if he could deceive shareholders into believing that WorldCom was growing, shareholders would continue to inject money into the company.

The fraud at WorldCom was propagated not just by Ebbers but also by several other officials at WorldCom, including CFO Scott Sullivan and WorldCom's comptroller, David Myers. Both of these individuals aided in secretly making entries of hundreds of millions of dollars into WorldCom's accounting report without any basis for such entries.

The fraud committed by the executive officials at WorldCom resulted in overstating the company's income by $11 billion.

In 2005, Ebbers was found guilty in federal court of fraud and received a sentence of twenty-five years in prison. Scott Sullivan received five years in prison, pleading guilty to fraud, conspiracy, and making false financial statements. David Myers received a sentence of one year and one day in prison.

As a result of the accounting fraud that occurred in the early 2000s, WorldCom was forced to declare bankruptcy. When this occurred, thousands of workers at WorldCom lost their jobs, and shareholders lost billions of dollars as the worth of WorldCom plummeted.

WorldCom not only affected its workers and shareholders but the entire telecommunications industry. Specifically, competing telecommunications companies that had once trusted WorldCom's false accounting reports now realized that they had been duped into relying on false data when making business decisions.

Sources: Dennis R. Beresford, Nicholas deB. Katzenbach, and C. B. Rogers, "Report of Investigation by the Special Investigative Committee of the Board of Directors of Worldcom, Inc." (March 31, 2003), available at http://news.findlaw.com/hdocs/docs/worldcom/bdspcomm60903rpt.pdf

Jennifer Bayot and Roben Farzad, "Ex-WorldCom Officer Sentenced to 5 Years in Accounting," August 12, 2005, available at http://www.nytimes.com/2005/08/12/business/12worldcom.html?pagewanted=all&_r=0

3. Customers.
4. Management.
5. The general community where the firm operates.
6. Future generations.

Managers should make sure they consider all relevant stakeholders when they engage in ethical reasoning.

Study the following Business Ethics Flashpoint. First, identify the stakeholders directly affected by the behavior of WorldCom and then tackle the harder task of identifying the many stakeholders who are in the background, perhaps, but were nevertheless affected immensely by WorldCom's actions.

Here is another practice exercise to get you into the habit of looking for the values involved in a dilemma and the stakeholders affected by the dilemma.

The Dofasco Steel Company's Approach to Workers

Dofasco is the second-largest steel producer in Canada and sells a wide range of steel products. In the 1980s, Dofasco experienced shrinking profits and decided to change its approach to business.

One of the ways that Dofasco changed was in its approach to its workers. Specifically, Dofasco attempted to implement a philosophy taking into account the whole person at work. In other words, this approach sought to include wellness as an important characteristic of the employee experience.

In line with this new philosophy, the Dofasco management claimed it would abide by the following policy statement issued in its 1996 guides of the company's health, safety, and lifestyle activities: "At Dofasco, there is nothing more important than the health and safety of our people."

Consistent with this policy statement, Dofasco provided training for employees in problem solving, manufacturing processes, and customer service. Dofasco also built on its tradition of providing its workers with ergonomic and fitness resources as well as preventive medical services.

Yet another way that Dofasco sought to focus its energies on employee needs was by encouraging healthy lifestyle practices at work. A healthy lifestyle at work would be achieved by preventing workplace accidents and maintaining a safe environment. In addition, Dofasco assessed employee needs in response to worker suggestions.

Dofasco believes that its focus on a safe and healthy workplace has improved its business. Specifically, the company claims that its policies have reduced lost time associated with work injuries and minimized Workers Safety Insurance Board payments.

In addition to focusing on worker safety and well-being, Dofasco also has a history of being environmentally responsible. For example, Dofasco was the first corporation in Canada voluntarily to sign an Environmental Management Agreement with Environment Canada and Ontario's Ministry of the Environment. In this agreement, Dofasco made commitments to abide by specific air and water quality standards and sustainable energy use and waste management. Through this agreement, Dofasco expressed its commitment to the community.

In addition, Dofasco created a Sustainable Development Strategy Team and is a founding sponsor of the Sustainable Enterprise Academy at York University's Schulich School of Business. The mission of this academy is to provide executives with training in how to manage businesses with an eye for sustainability.

Dofasco's organizational practices resulted in being named one of the world's most sustainable companies in the Dow Jones Sustainability Group Index.

Sources: Dan Corbett, "Excellence in Canada: Healthy Organizations—Achieve Results by Acting Responsibly," *Journal of Business Ethics* 55, no. 2 (December 2004), pp. 124, 130.

Joan Enric Ricart, Miguel Angel Rodriguez, Pablo Sanchez, and Lara Ventoso, "The Sustainable Enterprise: Learning from DJSI Leaders" (2005), available at: http://books.google.com/books?id=FXkX3fCOosMC&pg=PA49&lpg=PA49&dq=dofasco+sustai nable&source=bl&ots=ilGp2bmP3P&sig=QcyNRUHavY2DFQWdIE6_b-L_k&hl=en&sa=X&ei=2WAiU4KgBuGSyAHA8oHwBg&ved=0CCgQ6AEwCQ#v=onepage&q=dofasco&f=false

Public Disclosure Test One way to think of the public disclosure test is to view it as a ray of sunlight that makes our actions visible rather than obscured. The public disclosure test is sometimes called the television test, for it requires us to imagine that our actions are being broadcast on national television. The premise behind this general guideline is that ethics is hard work, labor that we might resist if we did not have frequent reminders that we live in a community. Given our role as a member of a community, our self-concept is tied, at least in part, to how that community perceives us.

universalization test
The ethical guideline that urges us to consider, before we act, what the world would be like if everyone acted in this way.

Universalization Test A third general guideline shares with the other two a focus on the "other"—the stakeholders whom our actions affect. Before we act, the **universalization test** asks us to consider what the world would be like if our decision were copied by everyone else. Applying the universalization test causes us to wonder aloud: "Is what I am about to do the kind of action that, *if others followed my example,* makes the world a better place for me and those I love?"

This chapter concludes with two Business Ethics Flashpoint examples. For the first one, try to word what the firm did in terms of the ethical guidelines. Did its behavior show potential consistency with all three of the guidelines?

As you study this next Business Ethics Flashpoint, start by asking yourself what values are in conflict in this business scenario. After you have established which values are in tension, work through both steps in the WH process for making ethical business decisions.

In summary, business managers can apply the WH approach to most ethical dilemmas. The WH framework provides a practical process suited to the frequently complex ethical dilemmas that business managers must address *quickly* in today's society.