



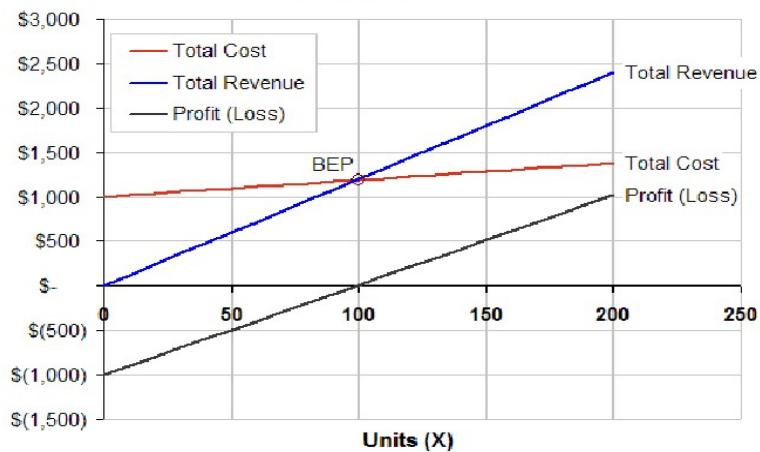
# MERGERS AND ACQUISITIONS



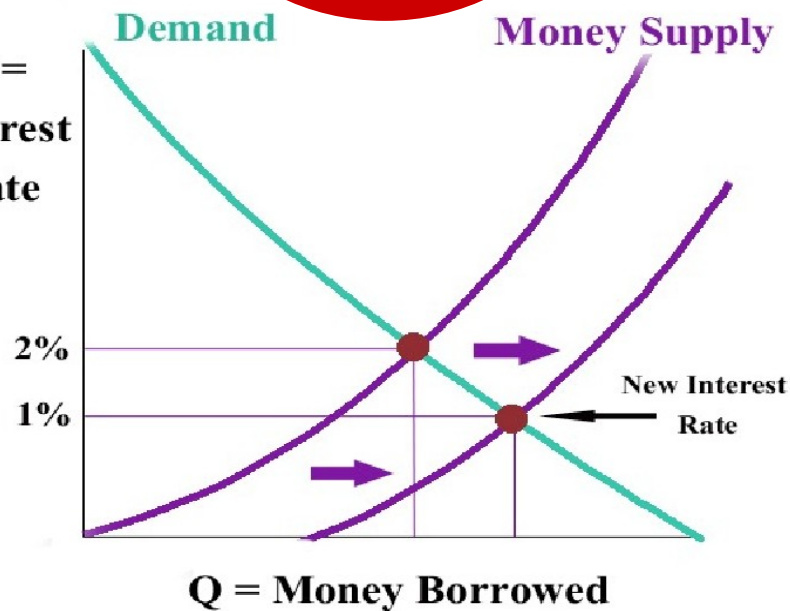
## Lecture #

02

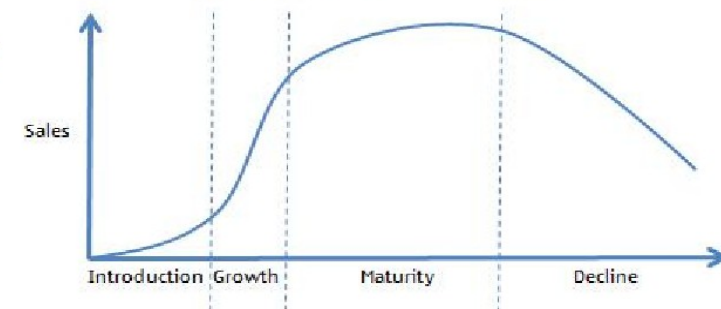
Break-Even Point



P =  
Interest  
Rate

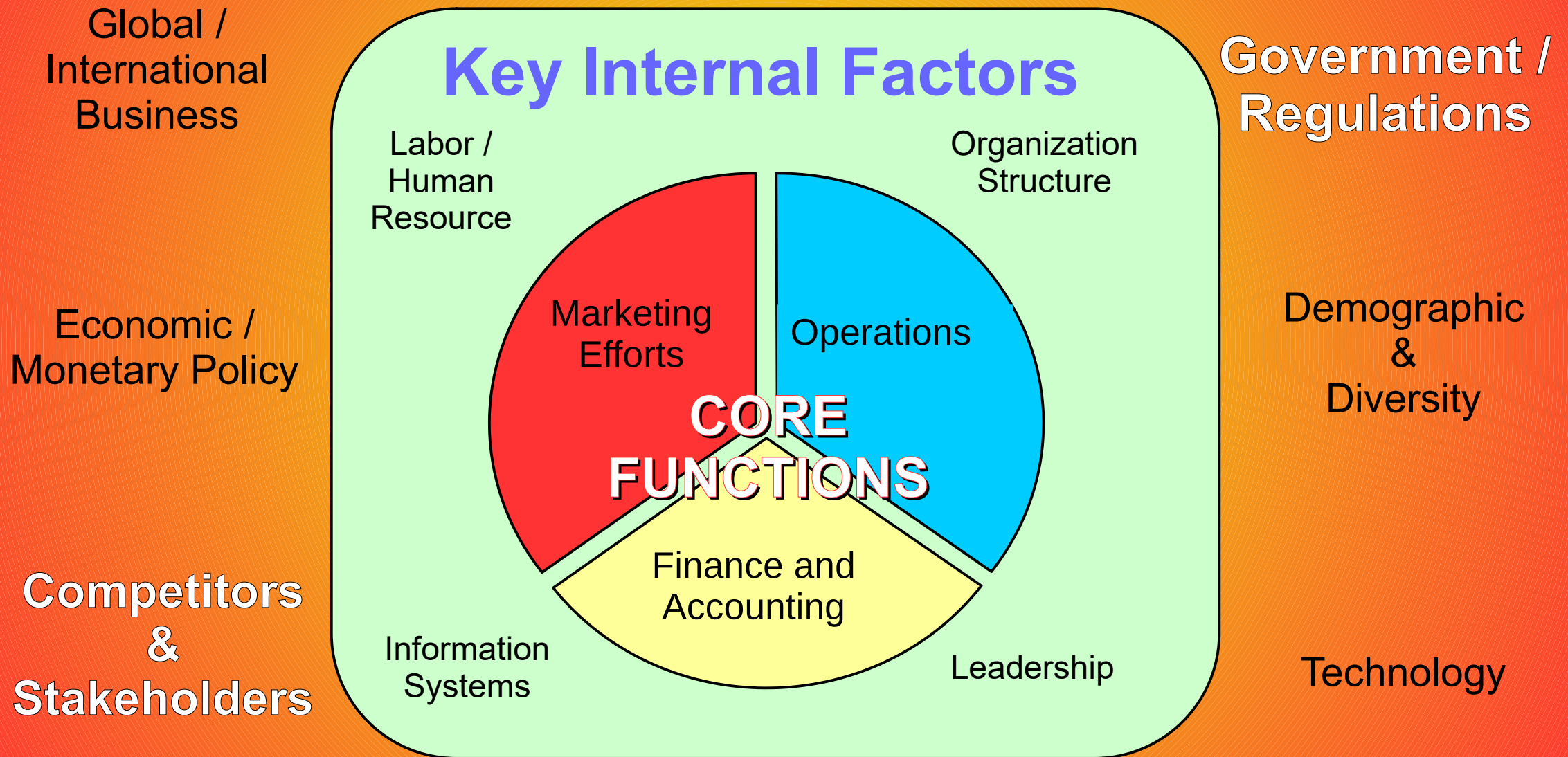


Product Lifecycle Stages





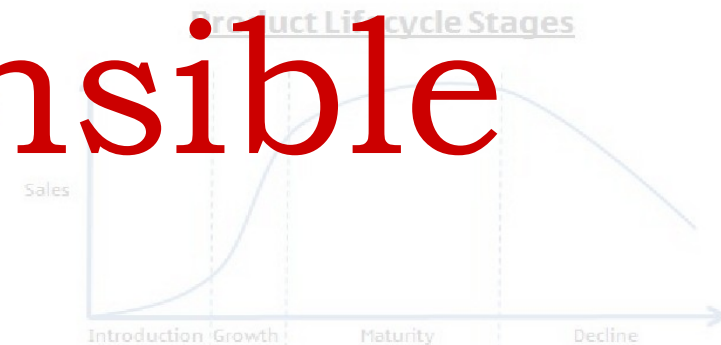
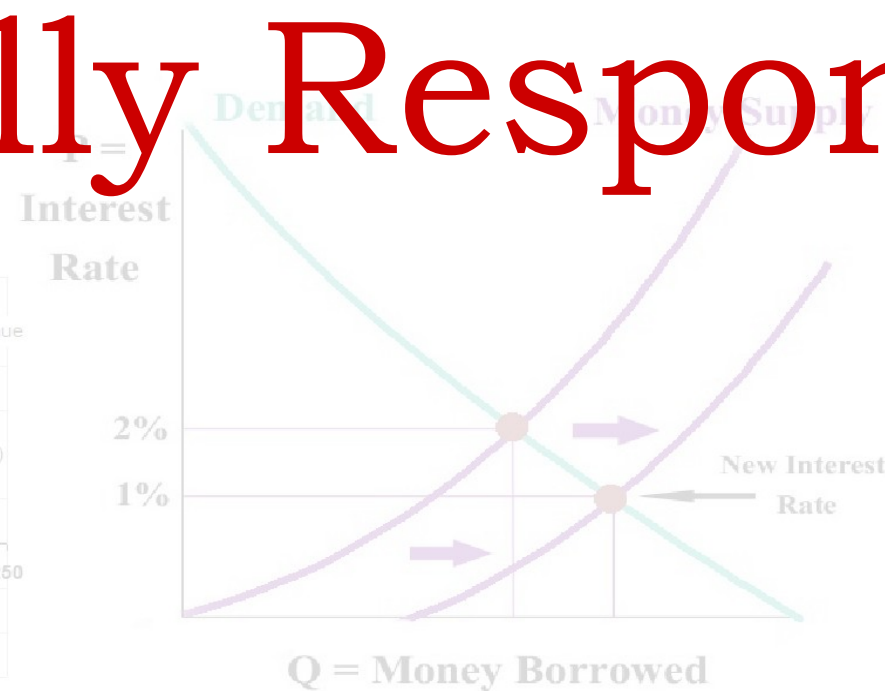
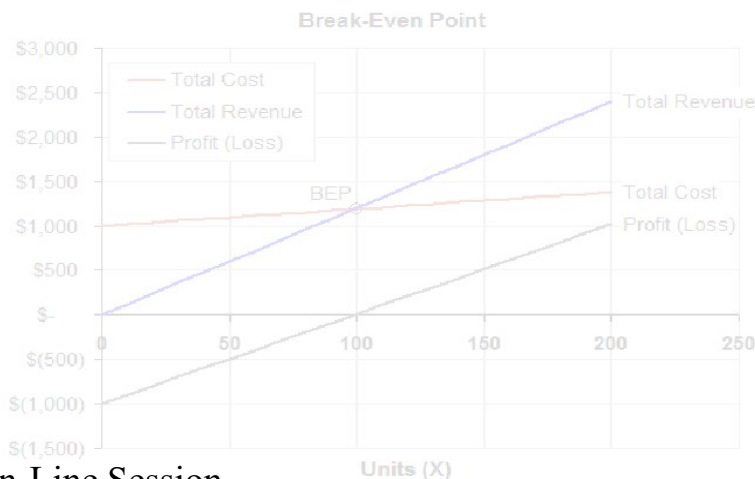
# External / Social Forces



# Introduction to Business

## Ethics and

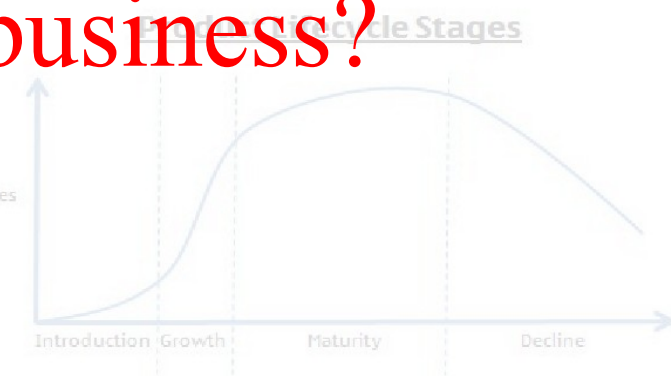
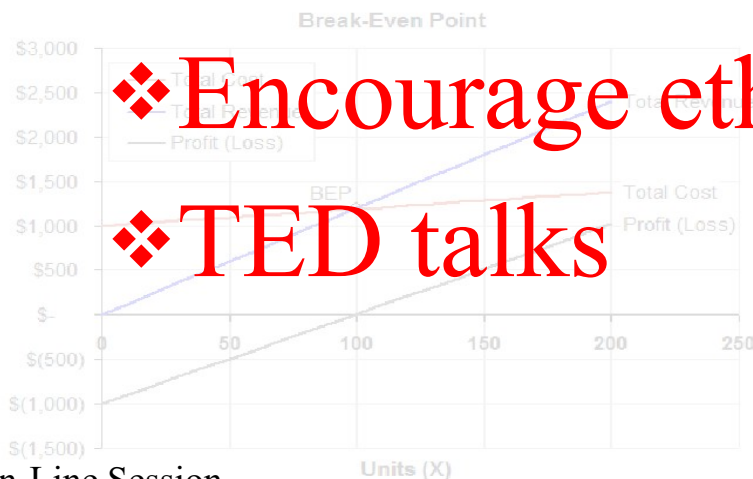
## Socially Responsible





# Objectives

- ❖ Ethics and business ethics.
- ❖ Ethical issues in the business world.
- ❖ Factors affecting ethical behavior.
- ❖ Increased social responsibility for business?
- ❖ Government's role and past abuses.
- ❖ Encourage ethical behavior.
- ❖ TED talks



# Ethics and business ethics

## ◆ Ethics

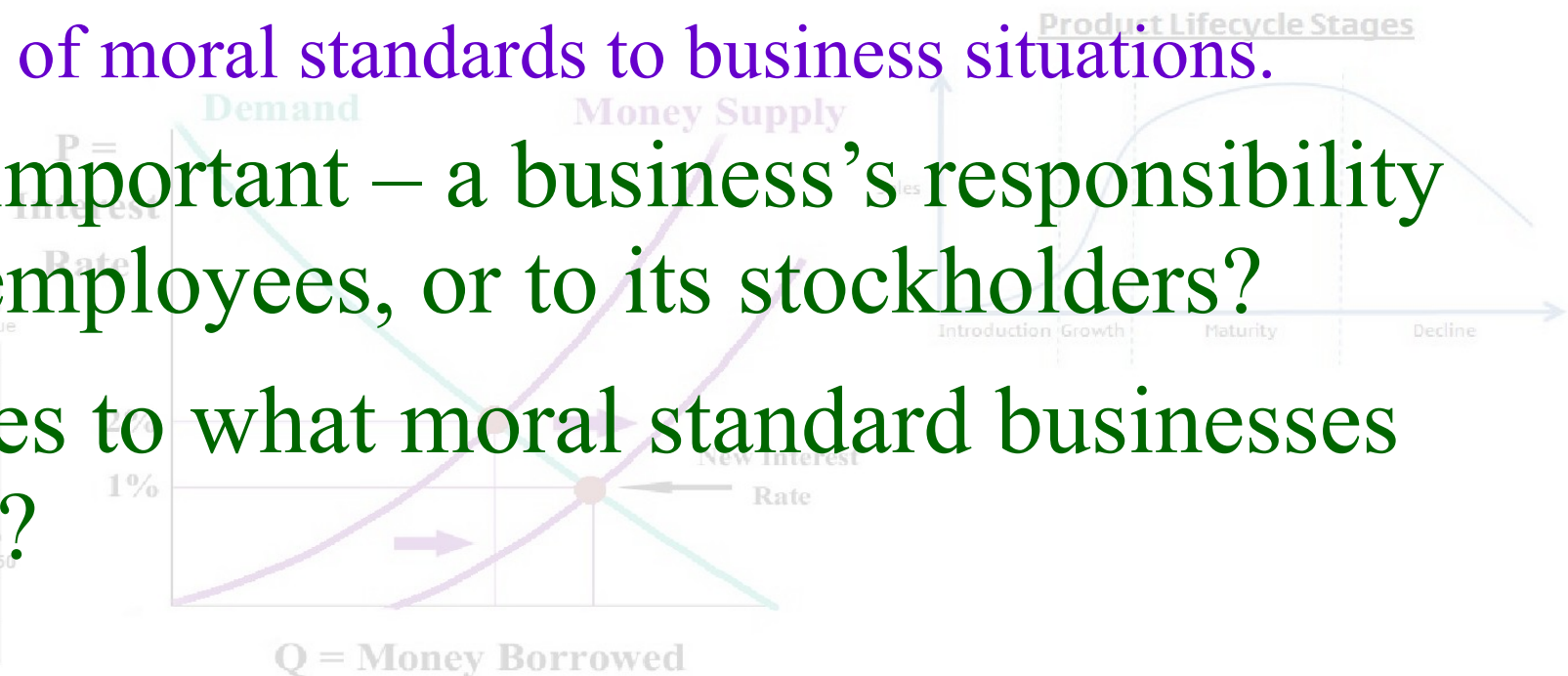
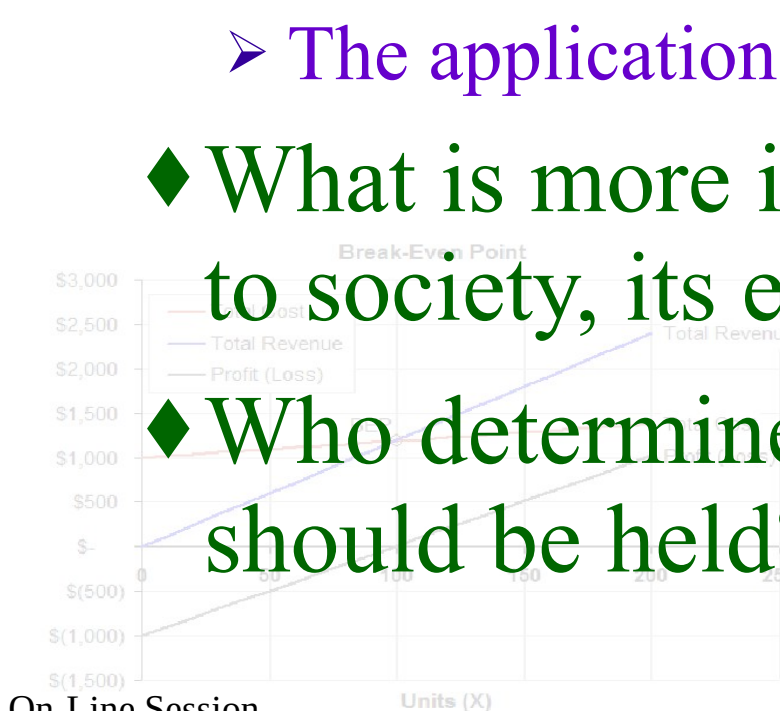
- Standards of moral behavior, that is behavior accepted by society as right versus wrong

## ◆ Business ethics

- The application of moral standards to business situations.

## ◆ What is more important – a business's responsibility to society, its employees, or to its stockholders?

## ◆ Who determines to what moral standard businesses should be held?

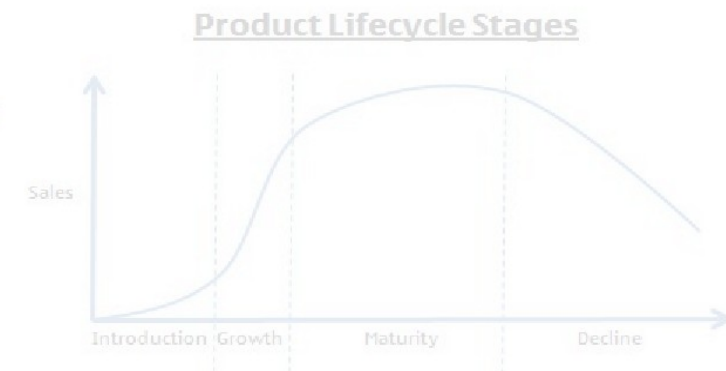
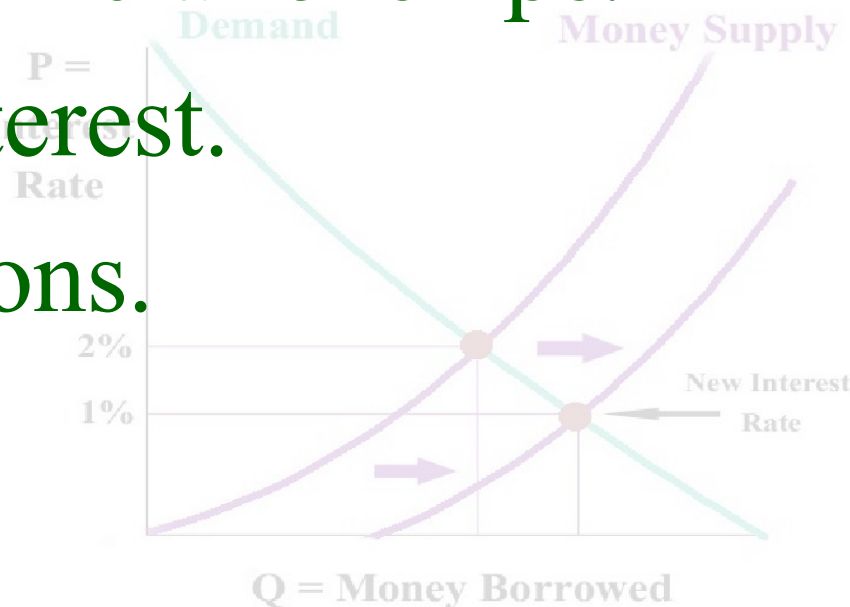
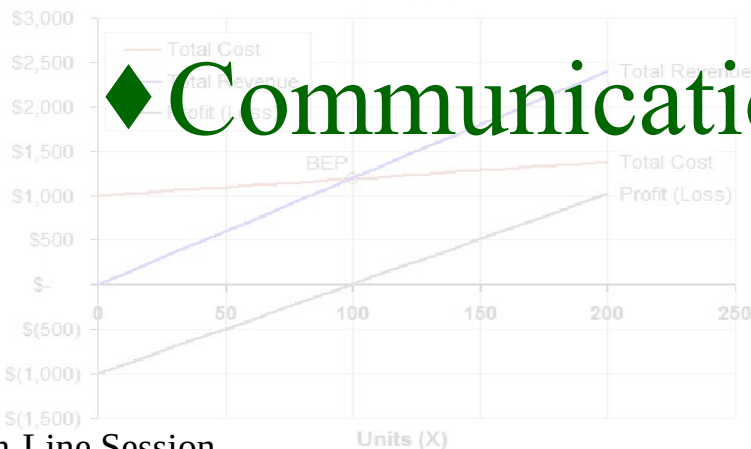




# Ethical issues in the business world

- ◆ Law and regulations.
- ◆ Employee privacy.
- ◆ Fairness and honest.
- ◆ Organizational relationships.
- ◆ Conflict of interest.
- ◆ Communications.

## MERGERS AND ACQUISITIONS



# Factors affecting ethical behavior

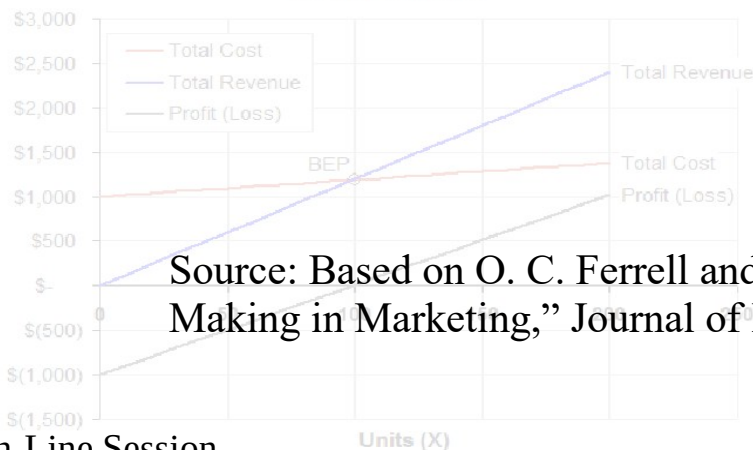
Ethical behavior influenced by

Individual factors

Social factors

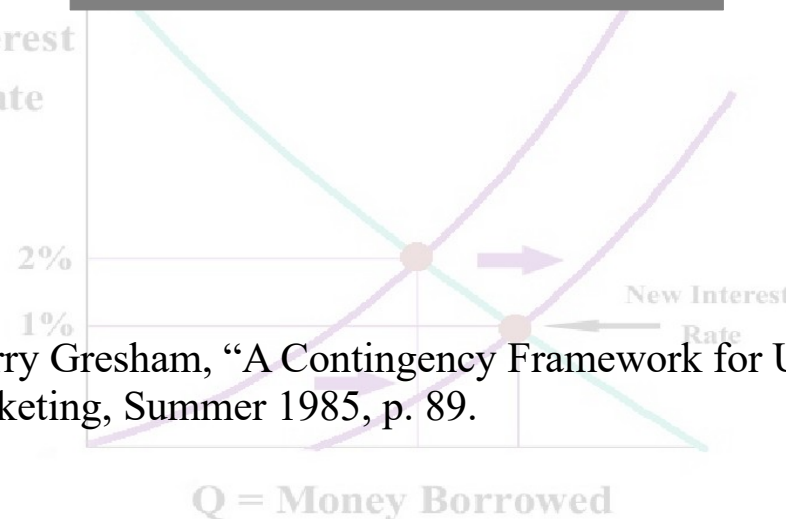
Opportunity

Break-Even Point



Source: Based on O. C. Ferrell and Larry Gresham, "A Contingency Framework for Understanding Ethical Decision Making in Marketing," Journal of Marketing, Summer 1985, p. 89.

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Rate

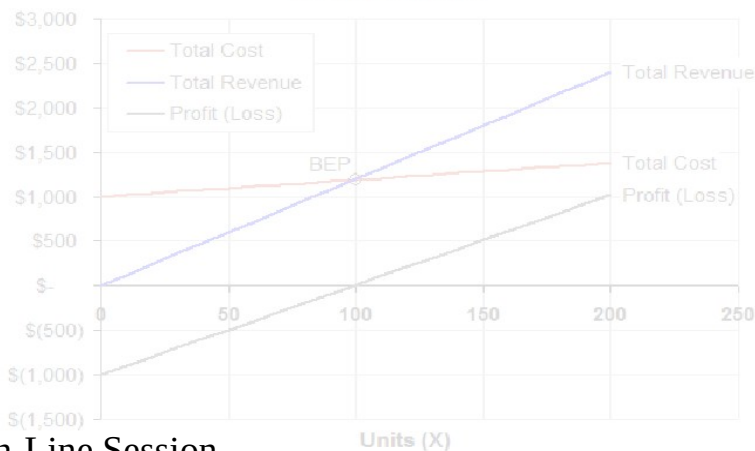


# Individual factors

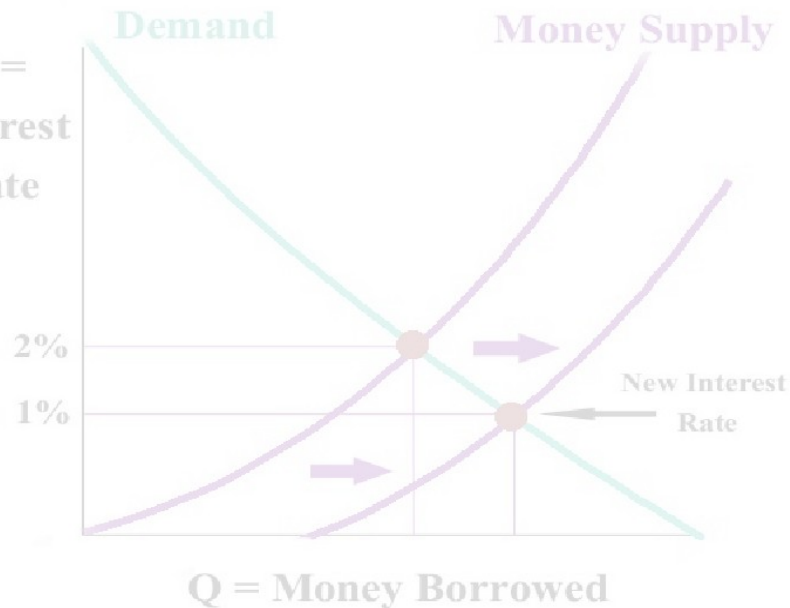
- Individual knowledge of an issue not aware of impropriety
- Personal values difference in value between executives and key stakeholders

## ➤ Personal goals

Break-Even Point



P =  
Interest  
Rate



Product Lifecycle Stages





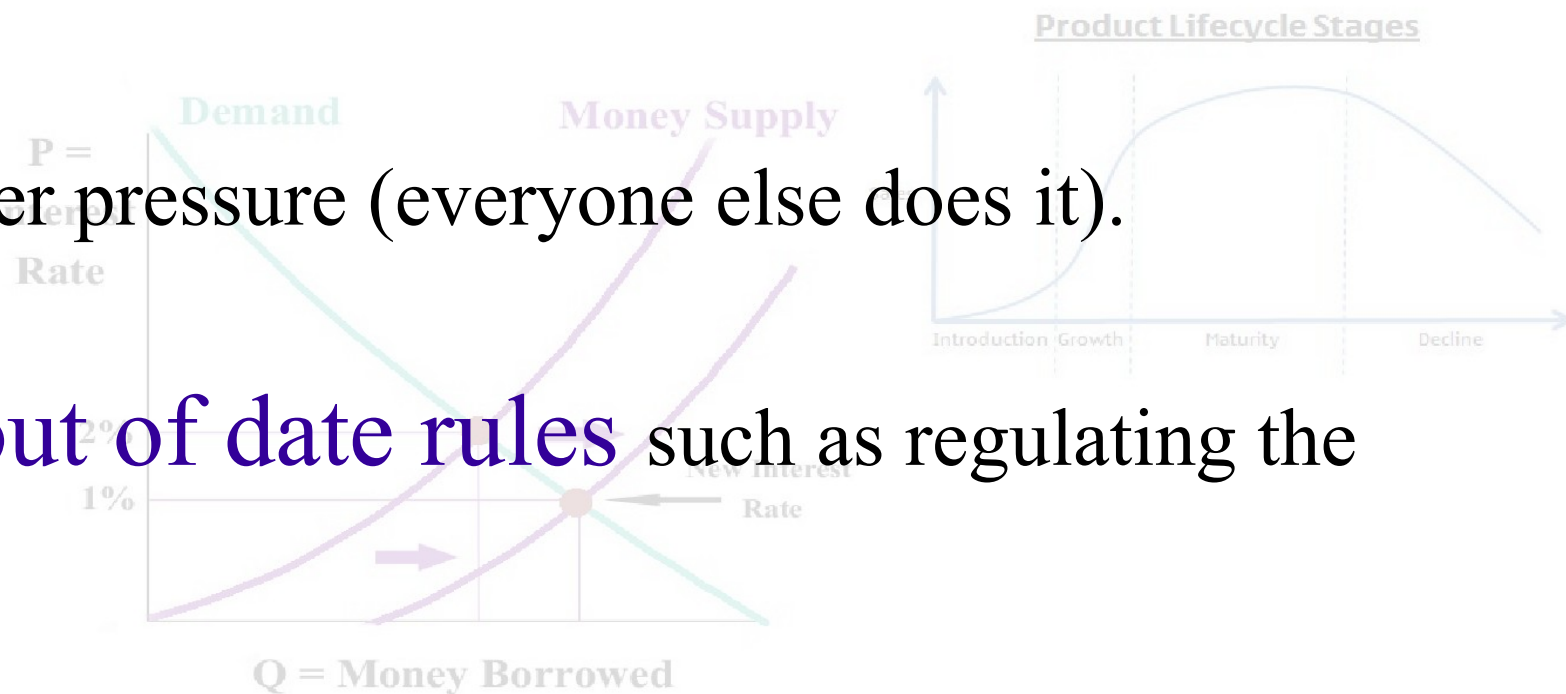
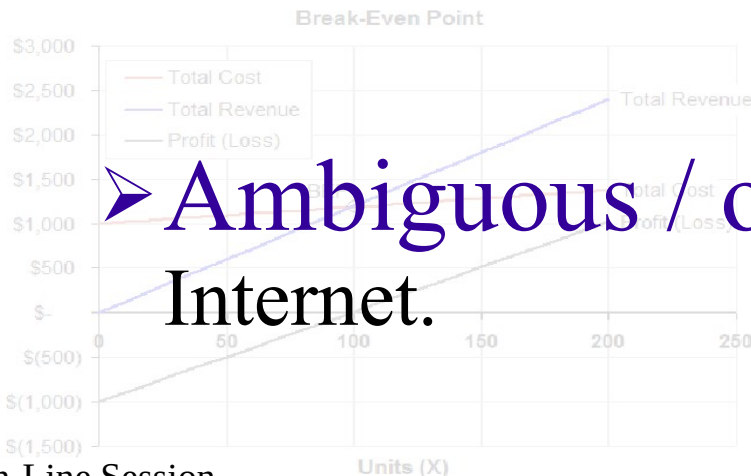
# Social factors

- Cultural norms & value may vary / Moral relativism

Morality is relative to some personal, social, or cultural standard and there is no one method for deciding whether one decision is better than another.

- Co-workers Peer pressure (everyone else does it).

- Ambiguous / out of date rules such as regulating the Internet.



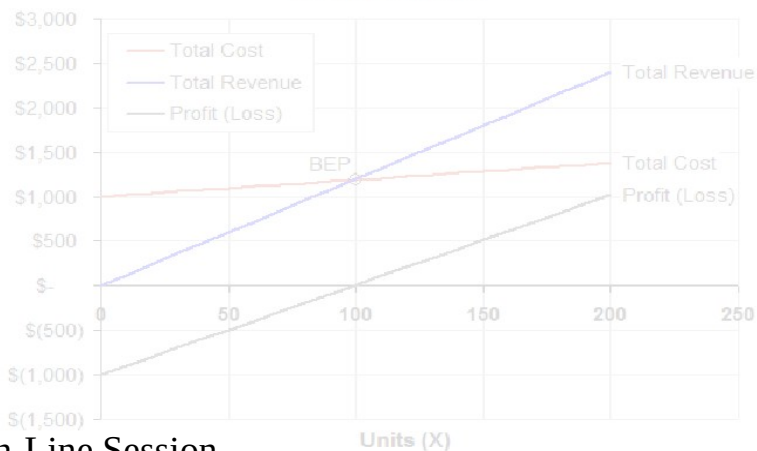
# Opportunity

- Presence of opportunity
- Ethical codes
- Enforcement
- Organizational performance required it

## MERGERS AND ACQUISITIONS



Break-Even Point



P =  
Interest  
Rate



Product Lifecycle Stages

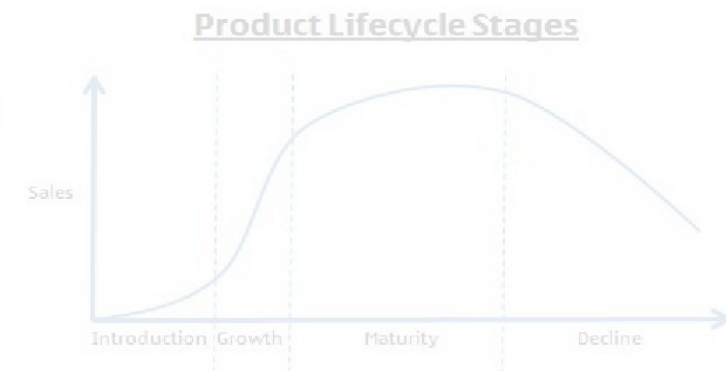
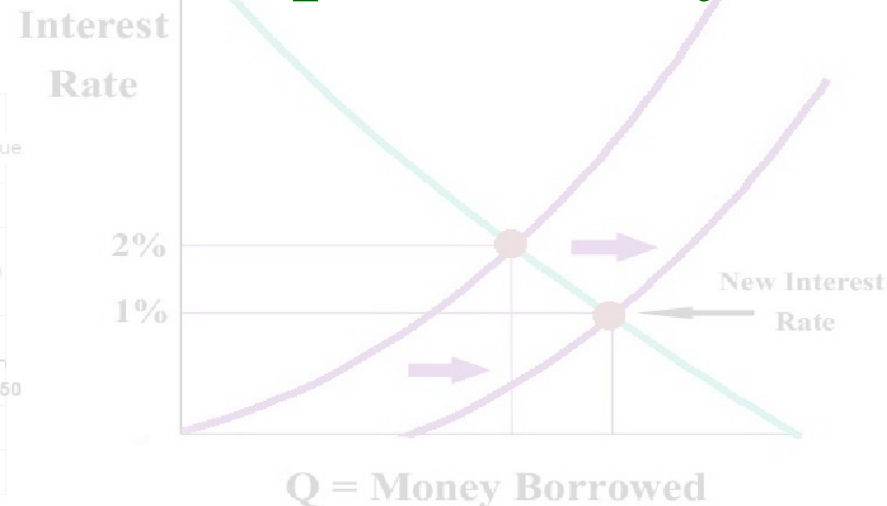




# Need to increase social responsibility?

- ◆ What is social responsibility
- ◆ Evolution of business social responsibility.

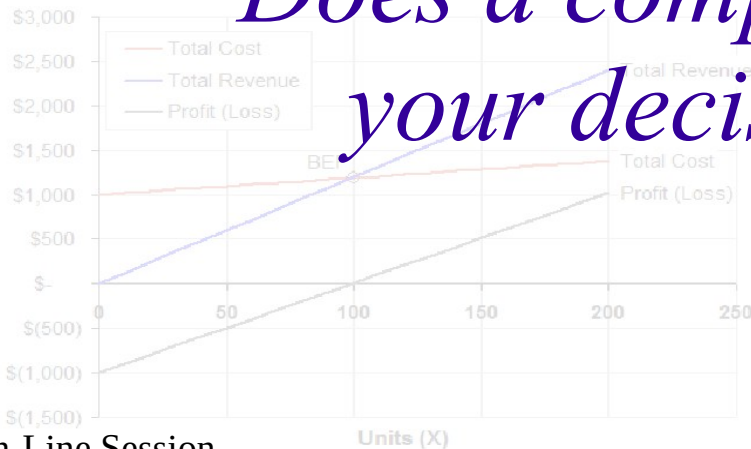
## ◆ Models of social responsibility



# Social responsibility (SR)?

- The recognition that business activities have an impact on society and the consideration of that impact in business decision making.
- Implementing SR costs money.

*Does a company's social responsibility affect your decision to do business with them?*





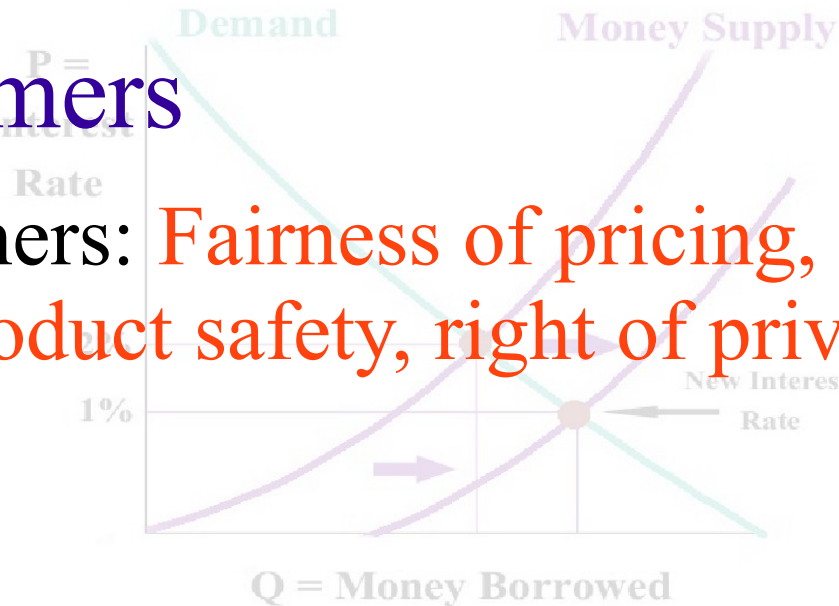
# New areas of concerns

## ➤ Firm vs employee

- ❑ Firm to employee: hiring and firing, wages and working conditions, privacy
- ❑ Employee to firm: conflict of interest, secrecy, honesty and expense accounts

## ➤ Firm vs customers

Firm to customers: Fairness of pricing, honesty in advertising, product safety, right of privacy



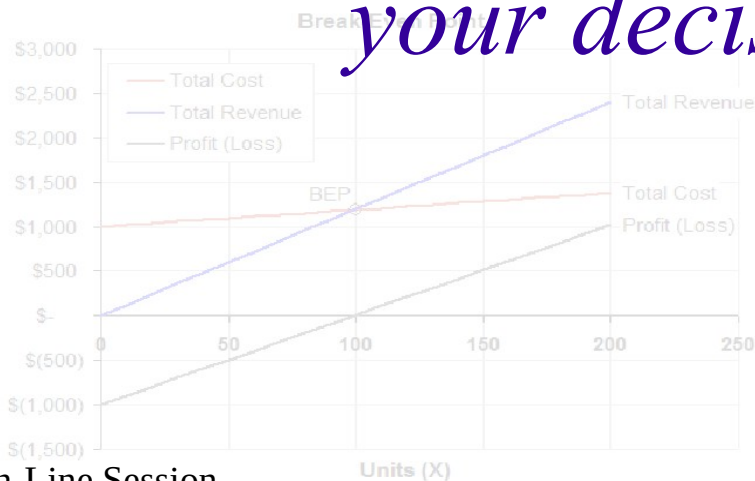
Product Lifecycle Stages



# Evolution of SR in business

- Prior to 20<sup>th</sup> century (1900) almost no legal protection for workers and consumers.
- Early 1900s – Caveat Emptor

*Does a company's social responsibility affect your decision to do business with them?*



Product Lifecycle Stages





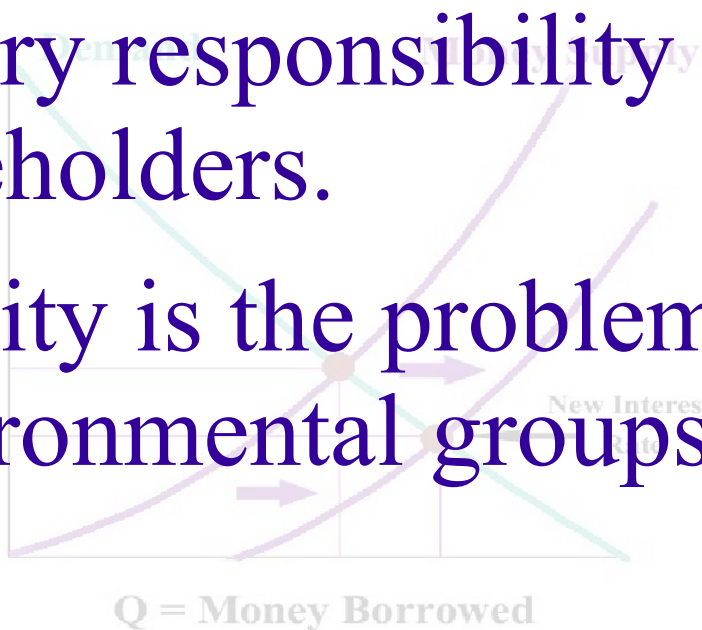
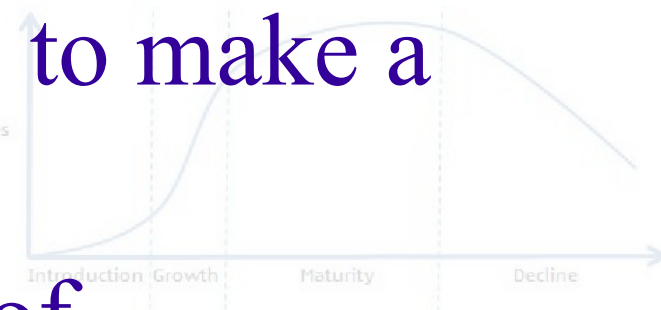
# Economic model of business SR

- Originated in the 18th century.
- Society will benefit most when business is left alone to produce and market profitable products that society needs.
- Company's primary responsibility is to make a profit for its shareholders.
- Social responsibility is the problem of government, environmental groups, and charities.

MERGERS AND ACQUISITIONS

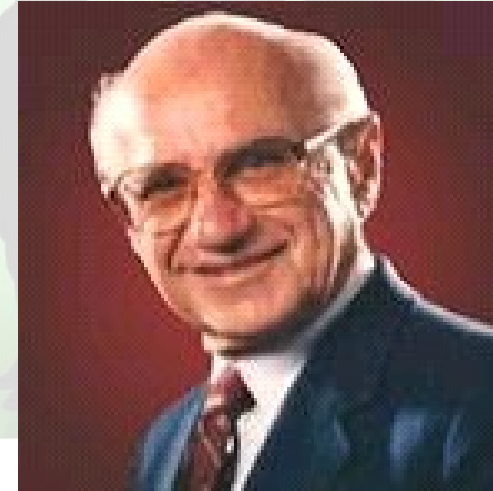


Product Lifecycle Stages



# Milton Friedman on SR for business

There is one and **ONLY** one social responsibility of business - to use its resources and engage in activities to increase its profit so long as it stays within the rules of the game, which is to say, engages in open & free competition without deception or fraud.



Break-Even Point



Product Lifecycle Stages



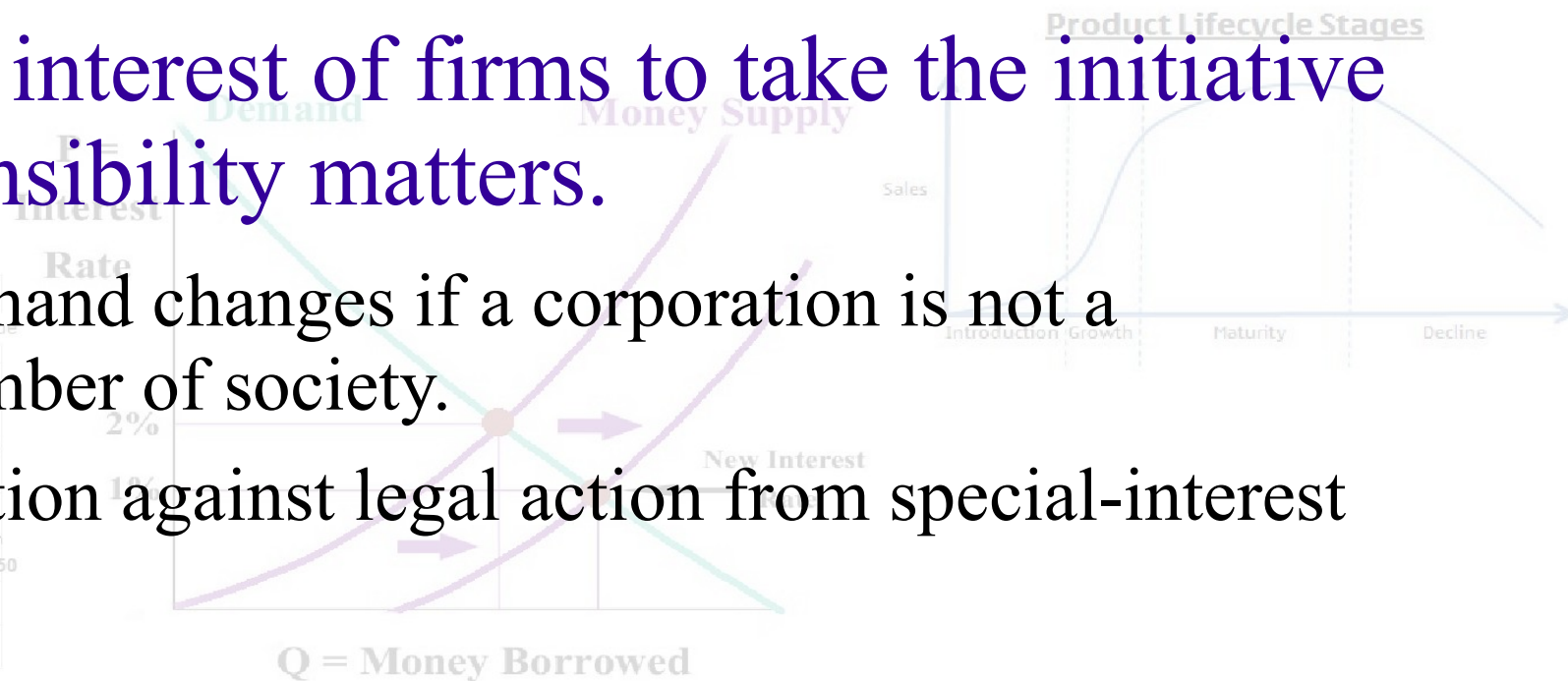
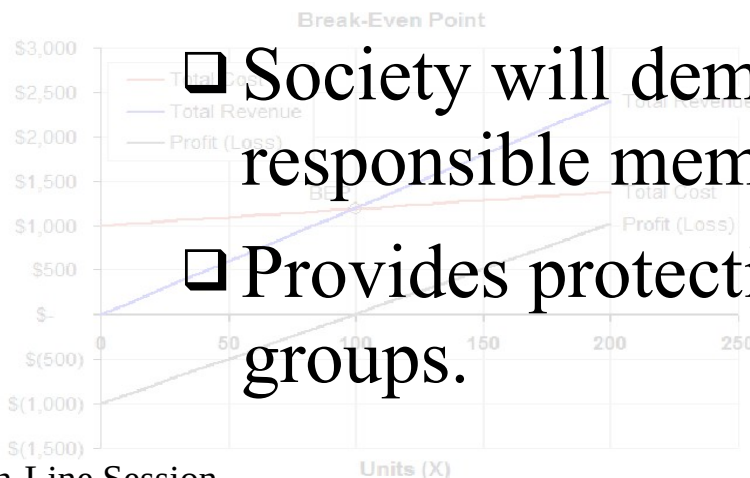


# Socioeconomic model of business SR

- Business should be concerned with the impact of its decisions on society.
- Firms take pride in their social responsibility obligations.
- It is in the best interest of firms to take the initiative in social responsibility matters.

❑ Society will demand changes if a corporation is not a responsible member of society.

❑ Provides protection against legal action from special-interest groups.



# Government's role and past abuses

◆ Changing role of the Federal Government.

◆ Consumer movement.

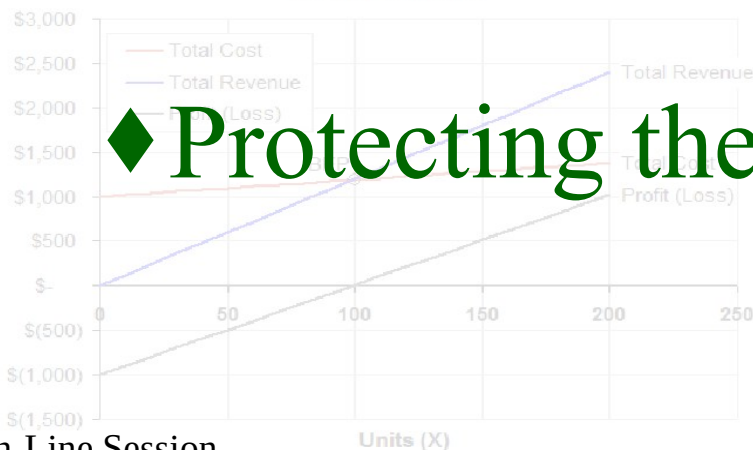
◆ Protecting workers / employees

◆ Protecting the environment.

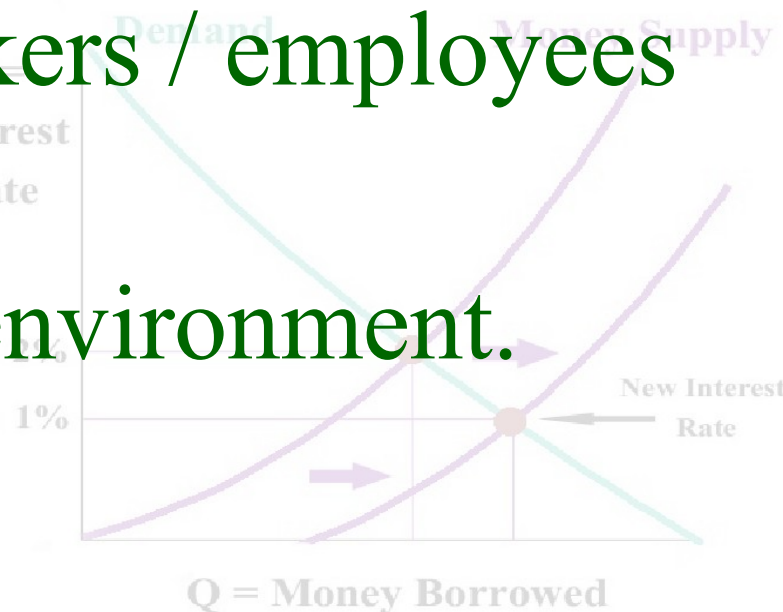
## MERGERS AND ACQUISITIONS



Break-Even Point



Interest Rate



Product Lifecycle Stages

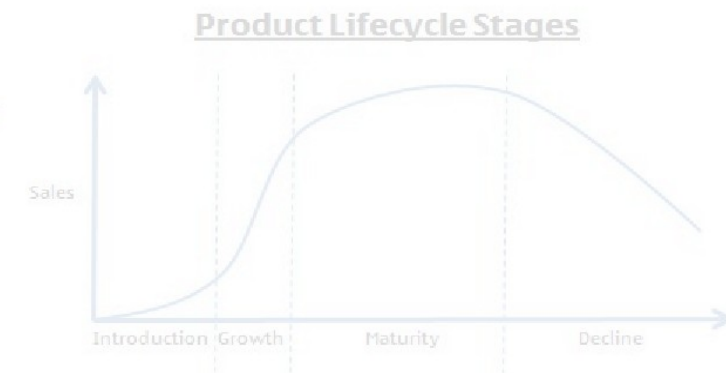
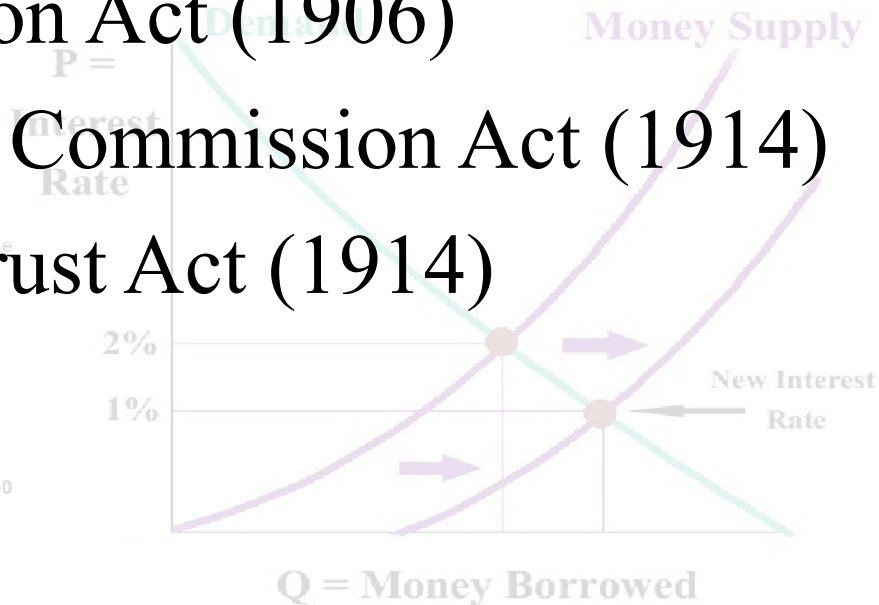
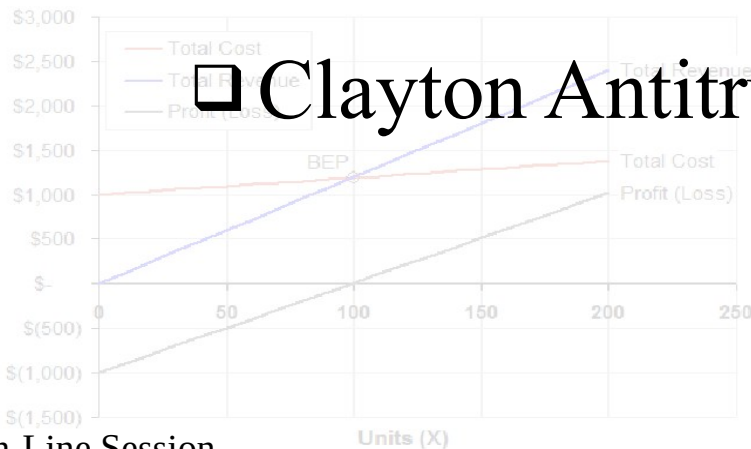




# Changing role of the Federal Government

## ➤ Encourage competition

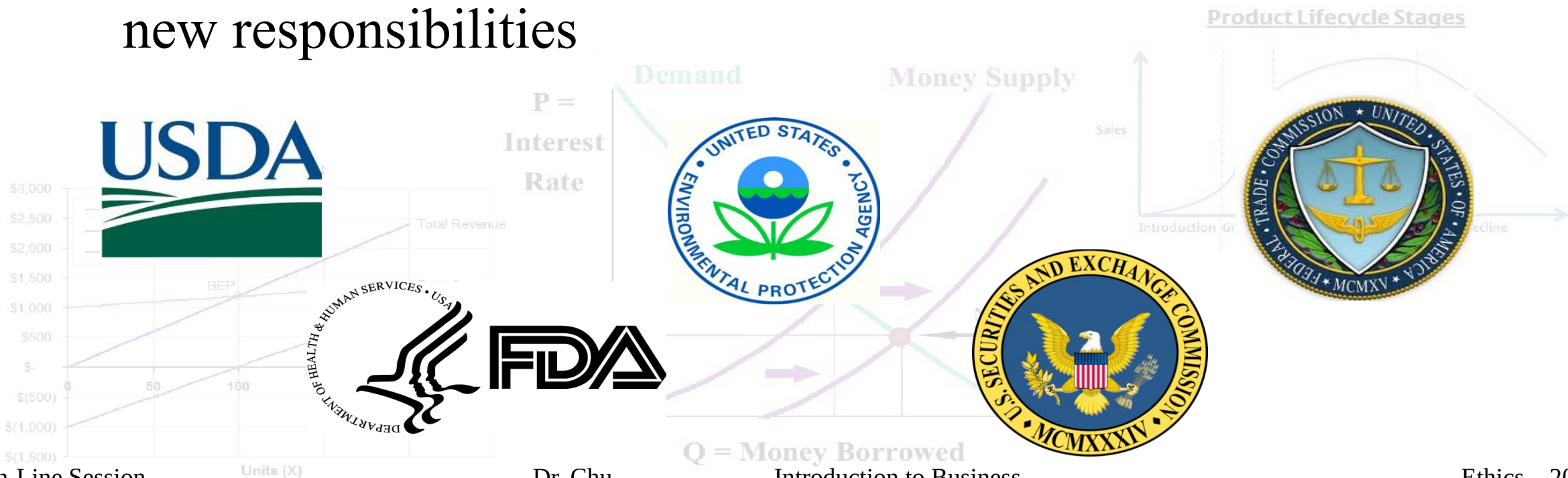
- ❑ Interstate Commerce Act (1887)
- ❑ Sherman Antitrust Act (1890)
- ❑ Pure Food and Drug Act (1906)
- ❑ Meat Inspection Act (1906)
- ❑ Federal Trade Commission Act (1914)
- ❑ Clayton Antitrust Act (1914)



# Changing role of the Federal Government

## ➤ Great Depression to WWII

- ❑ As government regulation has increased, so has everyone's awareness of the social responsibility of business.
- ❑ Numerous agencies created to help U.S. government in these new responsibilities





# Consumer movement

## ➤ Consumer Bill of Rights

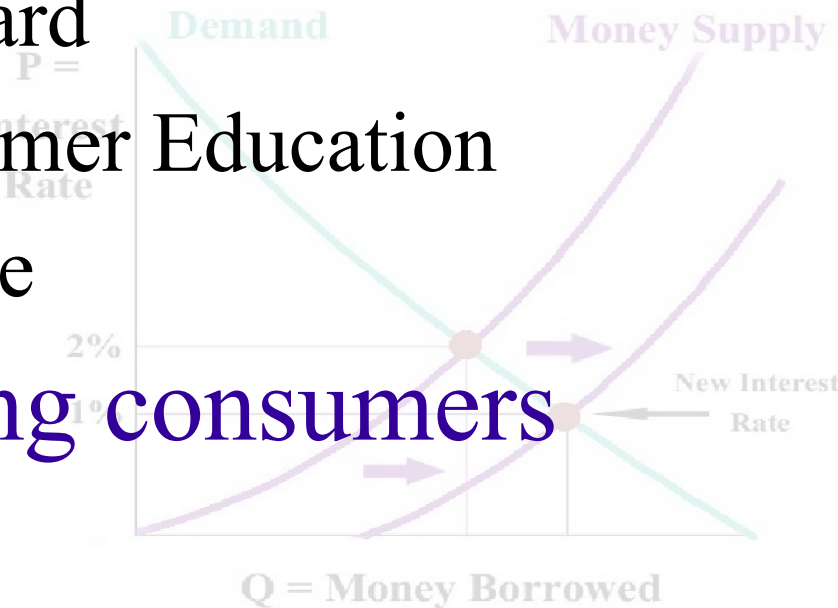
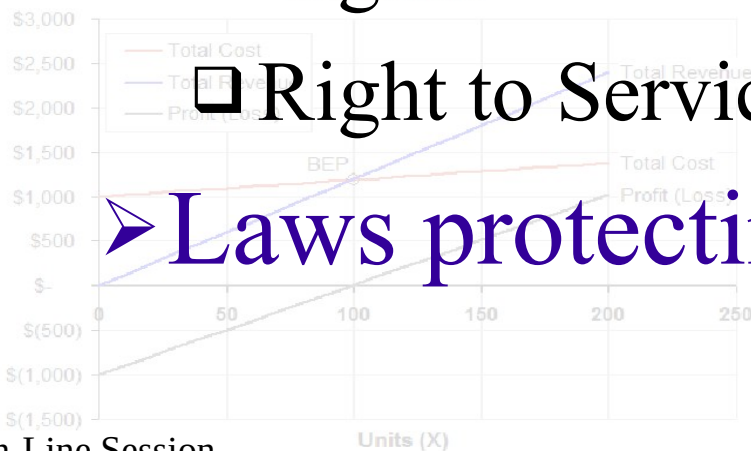
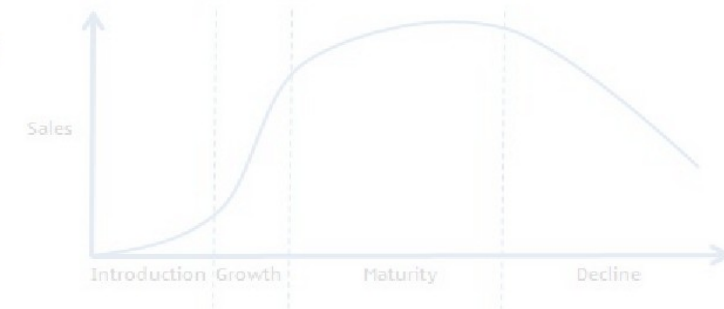
- ❑ Right to Safety
- ❑ Right to be Informed
- ❑ Right to Choose
- ❑ Right to be Heard
- ❑ Right to Consumer Education
- ❑ Right to Service

## ➤ Laws protecting consumers

### MERGERS AND ACQUISITIONS



### Product Lifecycle Stages



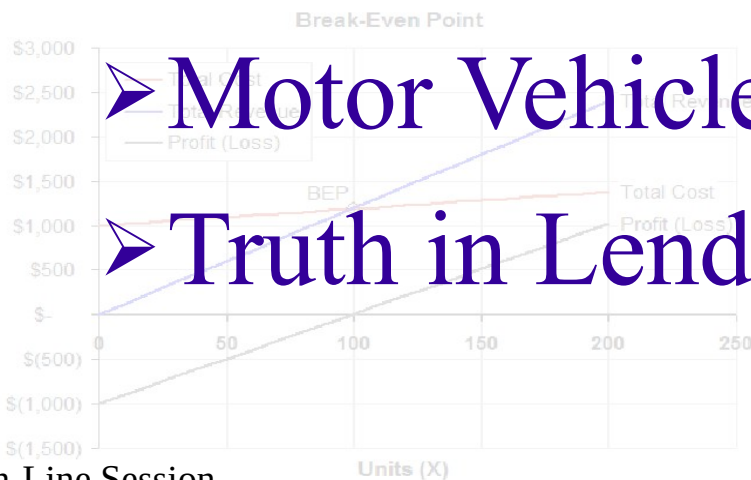
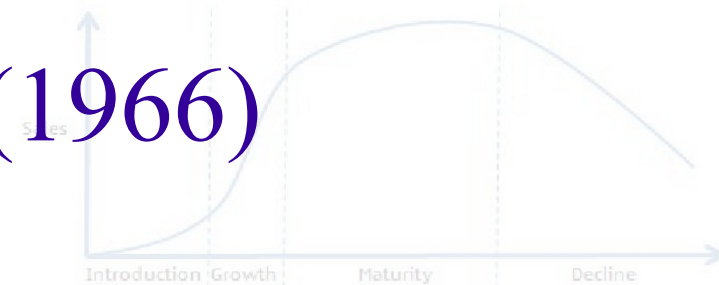
# Protecting consumers (1960s)

- Federal Hazardous Substances Labeling Act (1960)
- Kefauver-Harris Drug Amendments (1962)
- Cigarette Labeling Act (1965)
- Fair Packaging and Labeling Act (1966)
- Motor Vehicle Safety Act (1966)
- Truth in Lending Act (1968)

MERGERS AND ACQUISITIONS



Product Lifecycle Stages





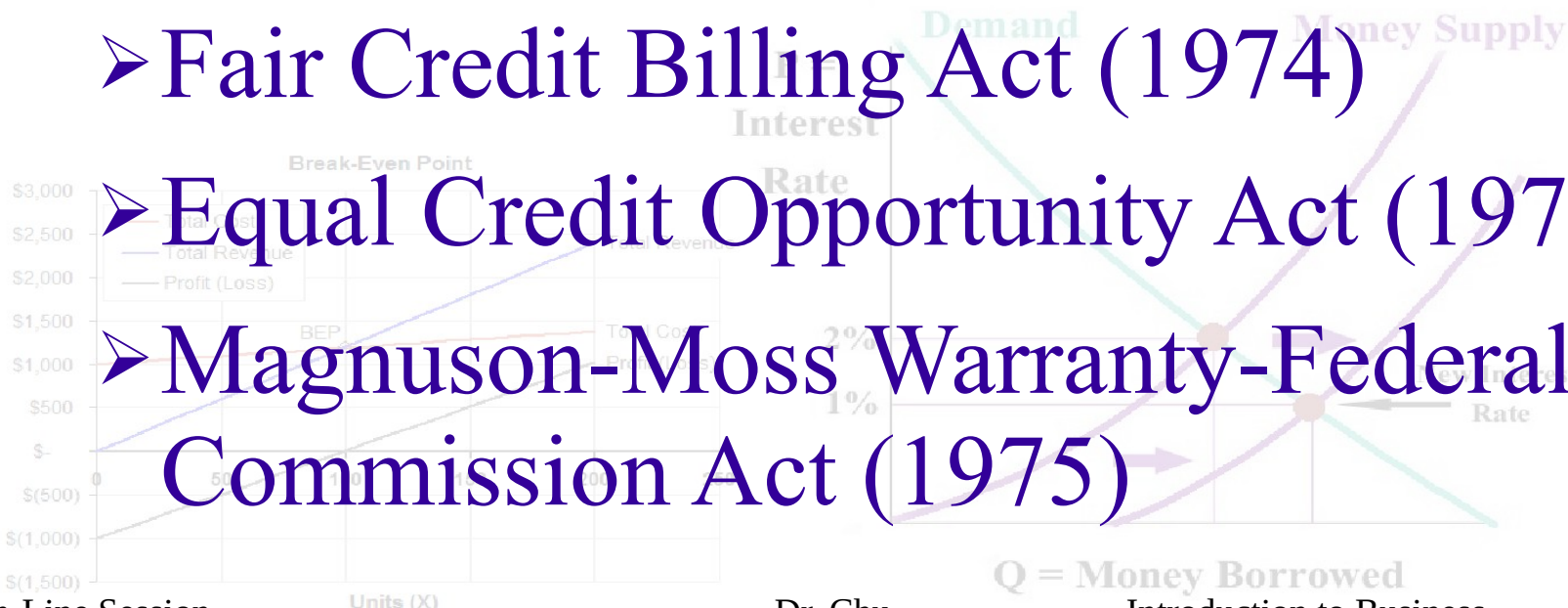
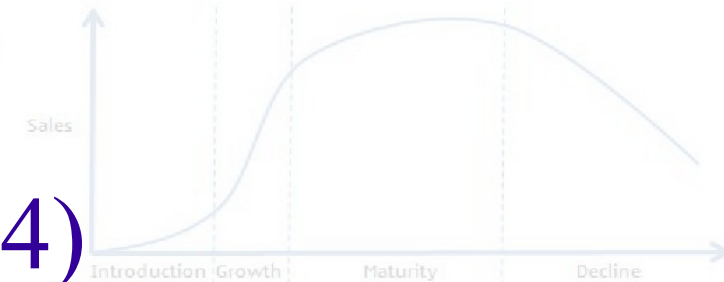
# Protecting consumers (1970s)

- Credit Card Liability Act (1970)
- Fair Credit Reporting Act (1971)
- Consumer Product Safety Commission Act (1972)
- Fair Credit Billing Act (1974)
- Equal Credit Opportunity Act (1974)
- Magnuson-Moss Warranty-Federal Trade Commission Act (1975)

MERGERS AND ACQUISITIONS

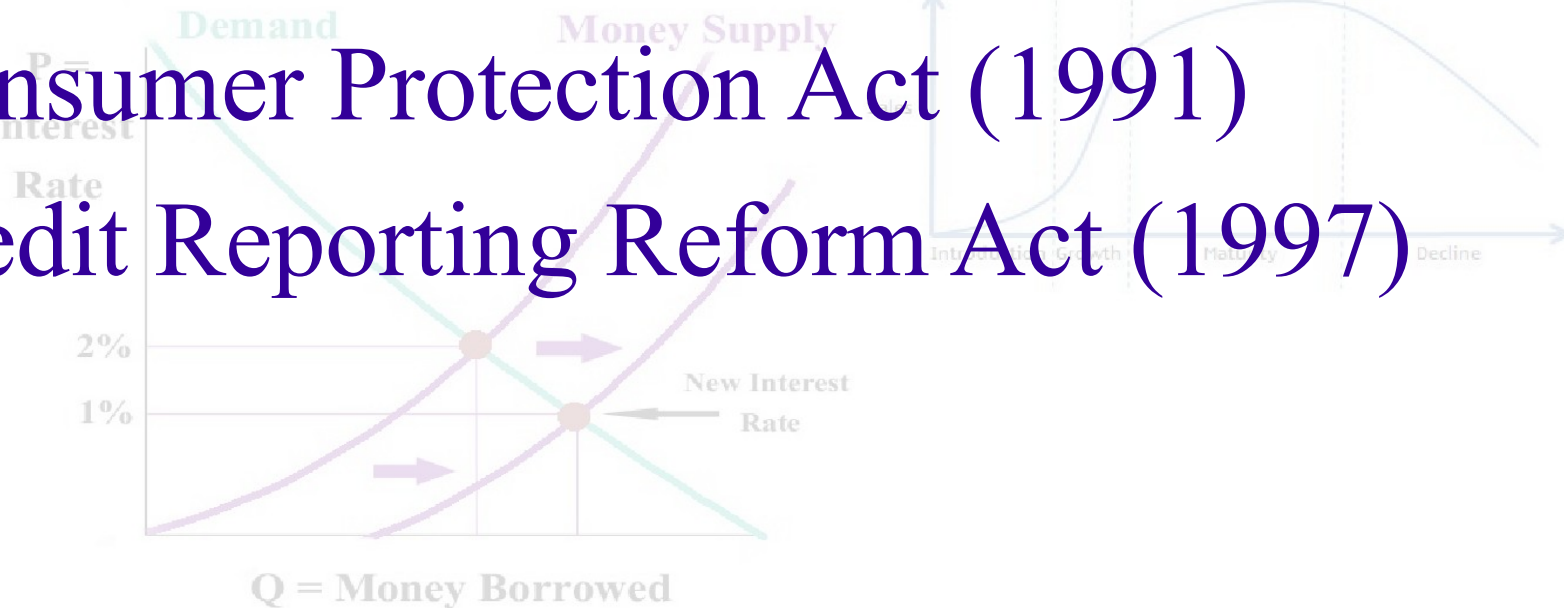
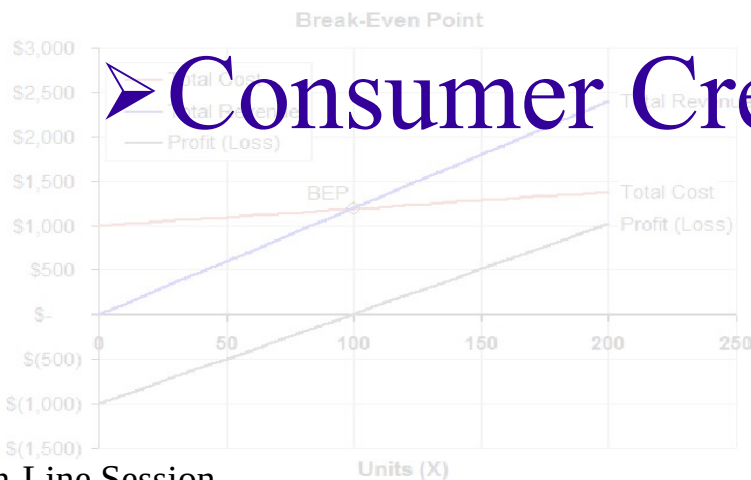


Product Lifecycle Stages



## Protecting consumers (1970s to 1990s)

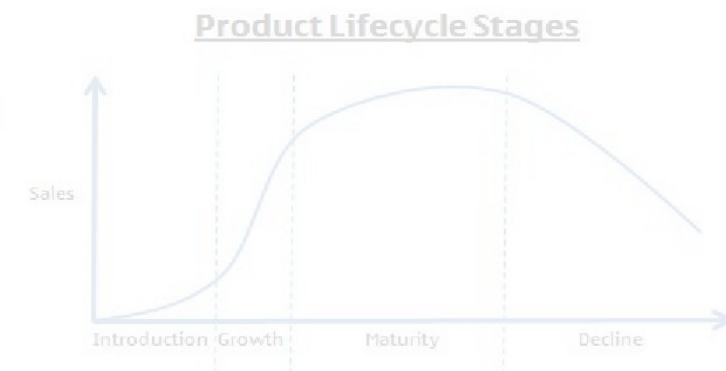
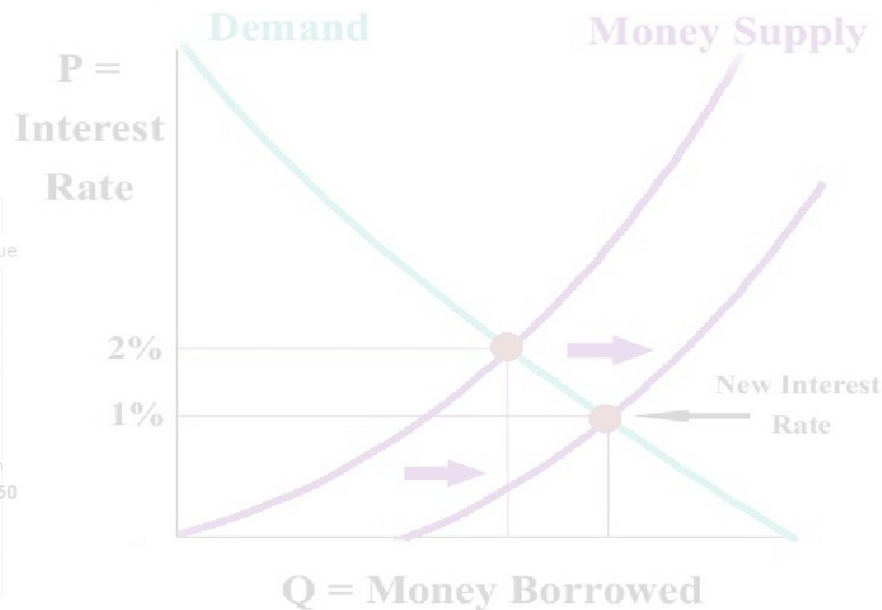
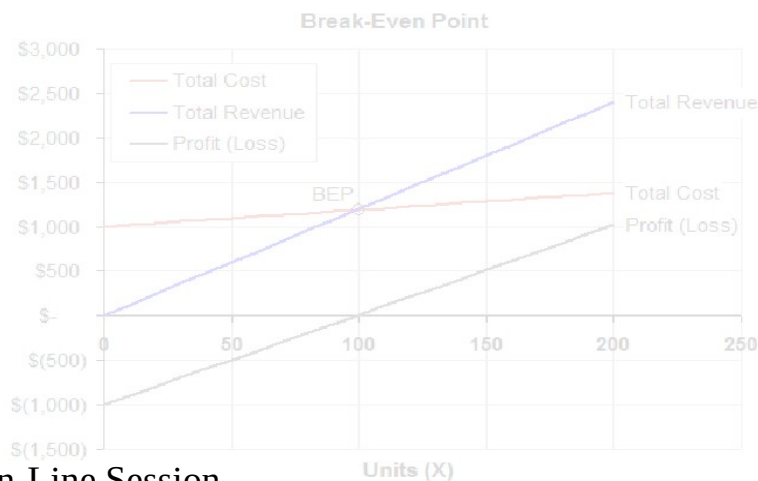
- Amendments to Equal Credit Opportunity Act (1976, 1994)
- Fair Debt Collection Practices Act (1977)
- Nutrition Labeling and Education Act (1990)
- Telephone Consumer Protection Act (1991)
- Consumer Credit Reporting Reform Act (1997)





# Protecting consumers (Since 2000s)

- Children Online Privacy Protection Act (2000)
- Do Not Call Implementation Act (2003)
- Credit Card Accountability, Responsibility, and Disclosure Act (2009)



# Protecting workers / employees

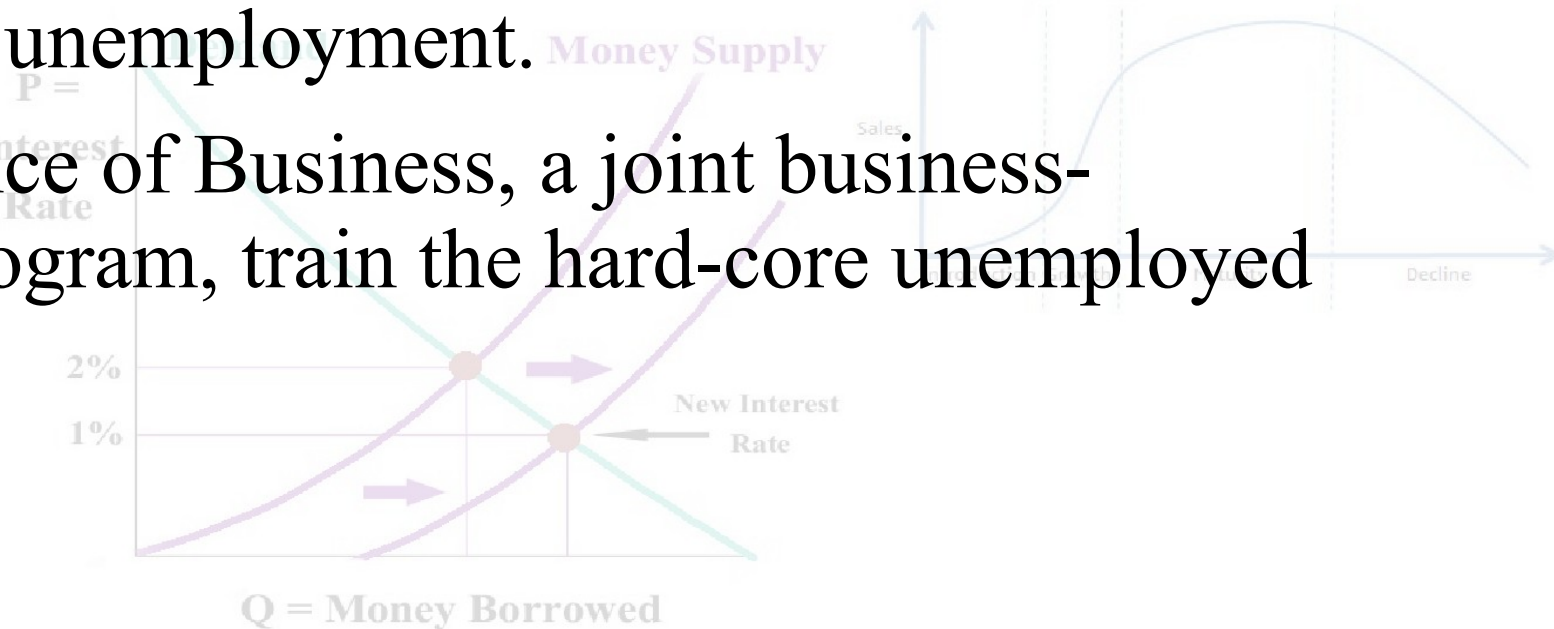
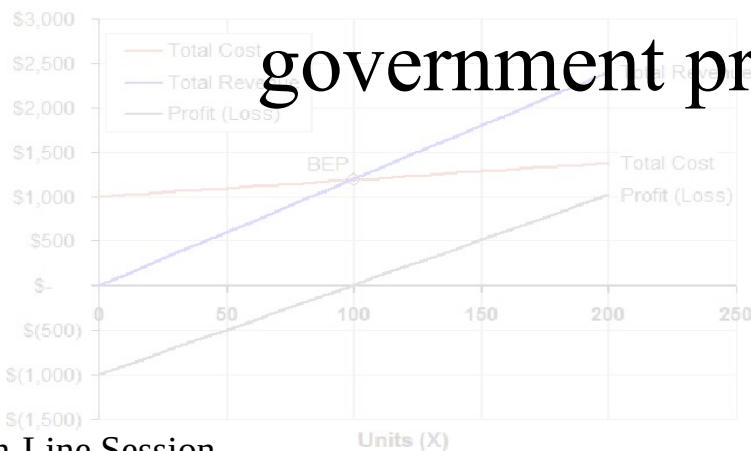
## ➤ Affirmative Action Programs

Use of quotas and reverse discrimination.

## ➤ Hard-core unemployed

❑ Workers with little education or vocational training and a long history of unemployment.

❑ National Alliance of Business, a joint business-government program, train the hard-core unemployed



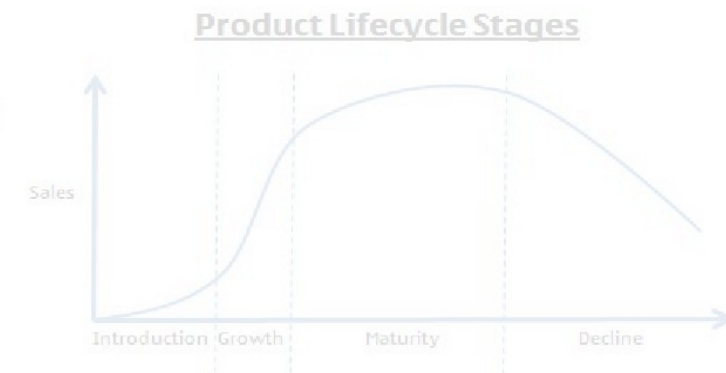
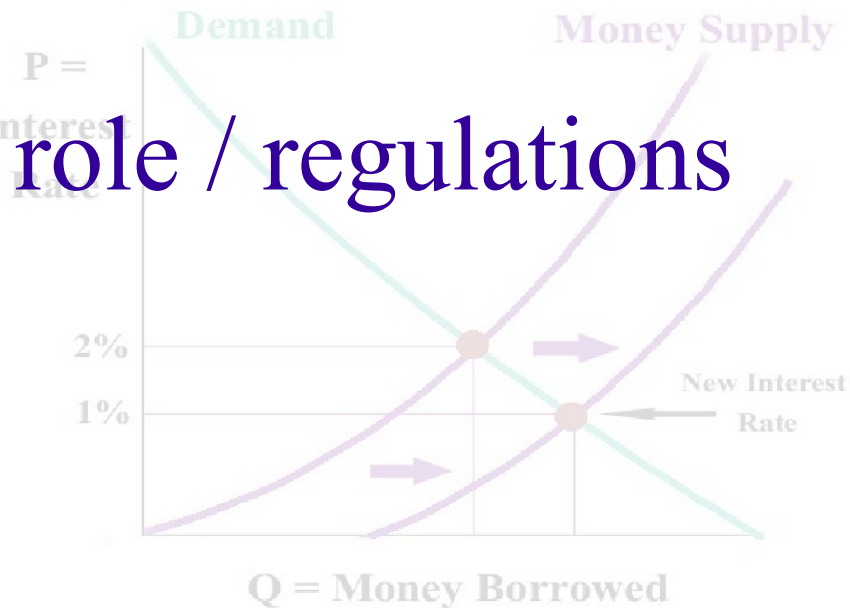
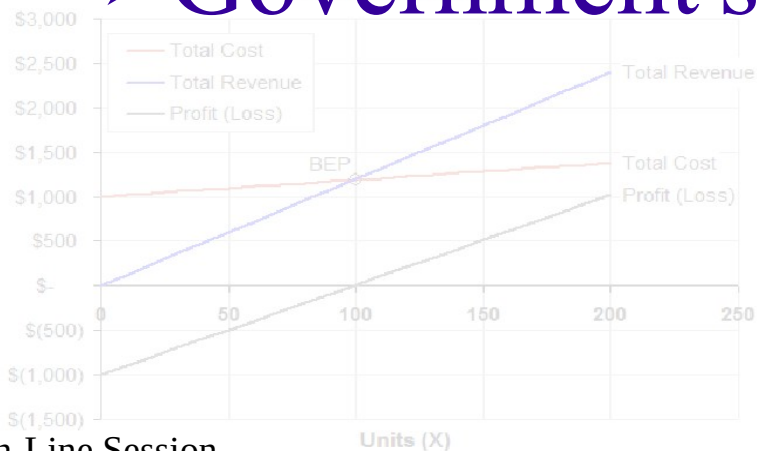


# Protecting the environment

## ➤ Types of environment

- ❑ Water
- ❑ Air
- ❑ Land
- ❑ Noise

## ➤ Government's role / regulations

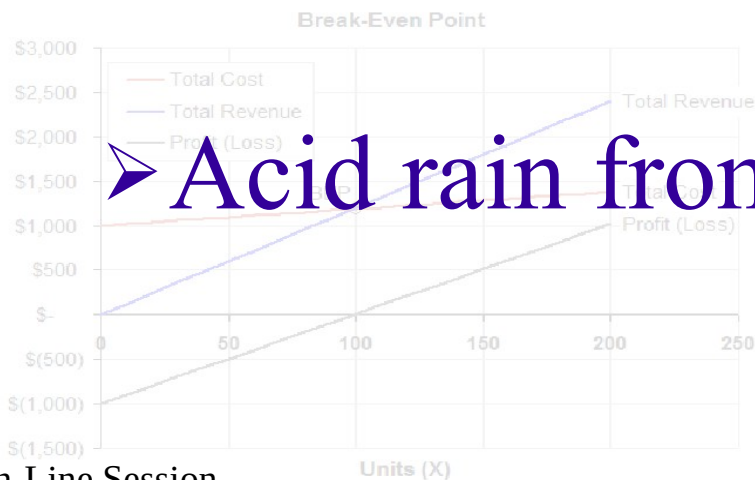


# Environment: Water pollution

- High levels of toxic pollutants in waters.
- Effect on people and wildlife.

- Runoff and toxic contamination.

- Acid rain from sulfur emissions.



Interest  
Rate



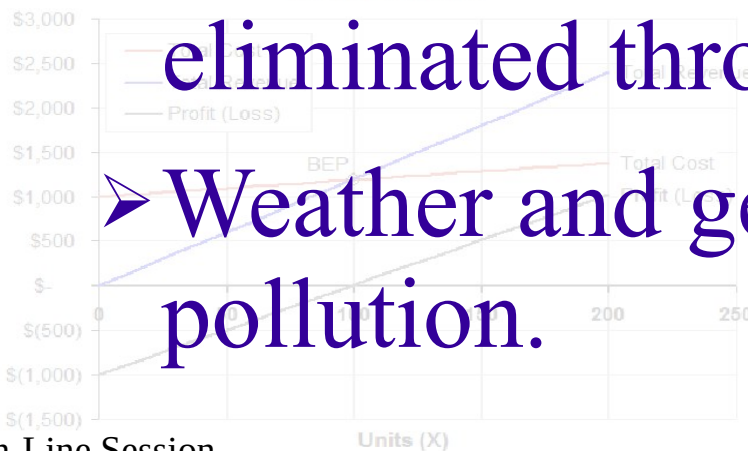
Product Lifecycle Stages





# Environment: Air pollution

- Success with lead.
- Carbon dioxide emissions in the upper atmosphere are contributing to global warming.
- Carbon monoxide and hydrocarbons emitted by motor vehicles and smoke and other pollutants emitted by manufacturing plants can be partially eliminated through pollution-control devices.
- Weather and geography can contribute to air pollution.

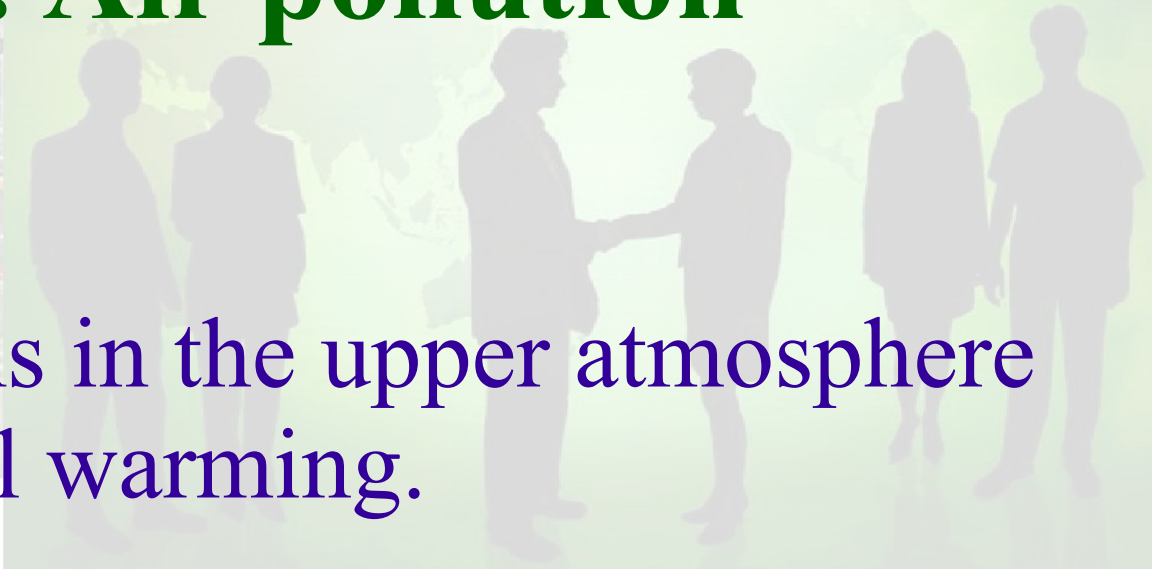


$P =$   
Rate

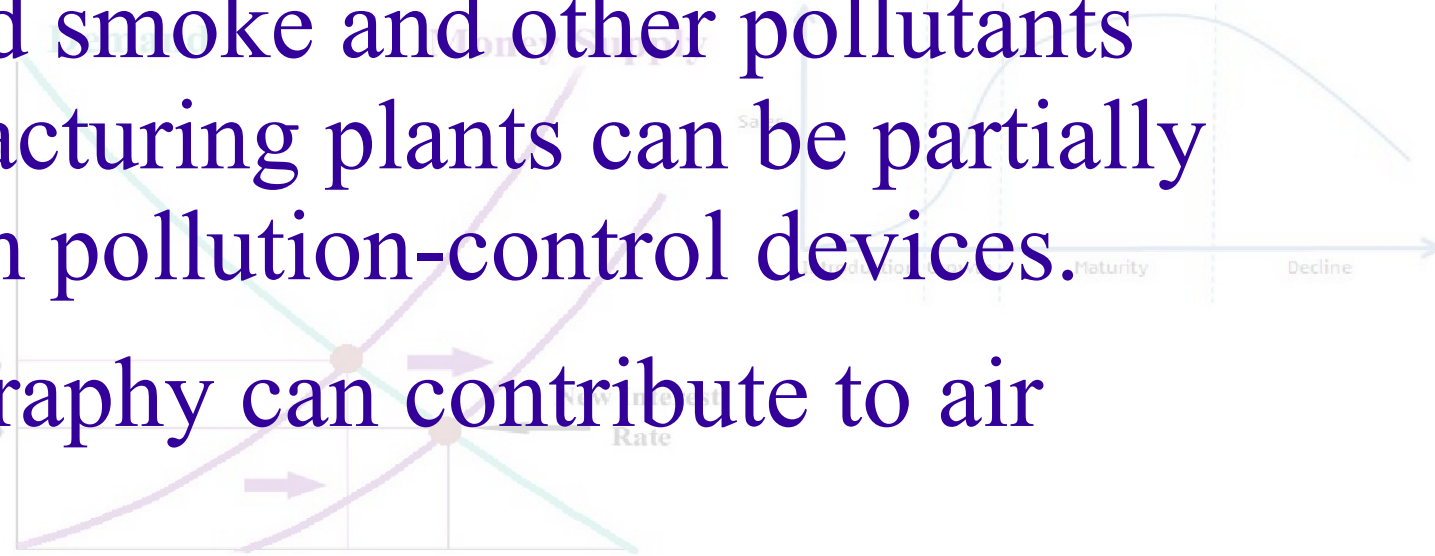
2%

$Q =$  Money Borrowed

MERGERS AND ACQUISITIONS



Product Lifecycle Stages



# Environment: Land pollution

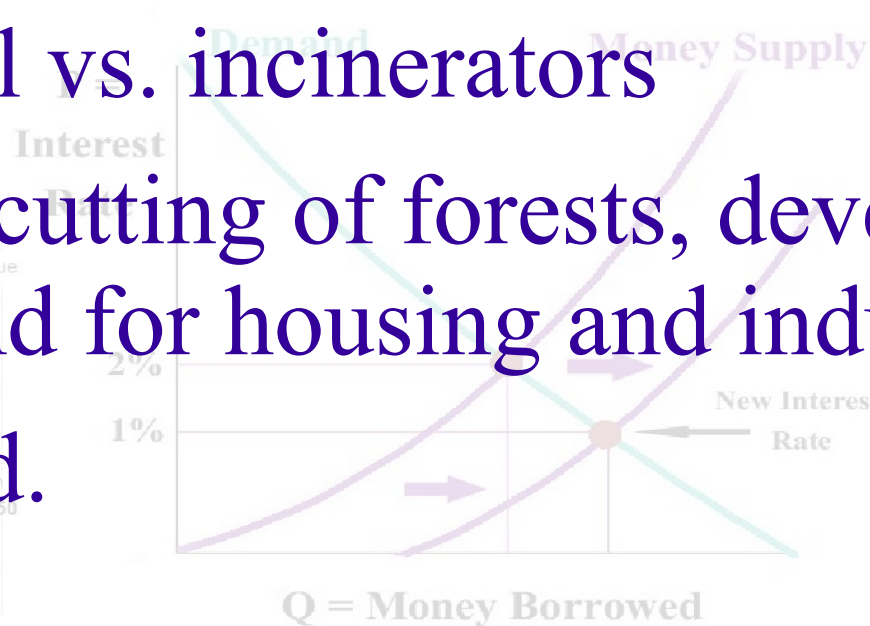
- How do we restore damaged or contaminated land?
- How do we protect unpolluted land from future damage?

➤ Chemical and radioactive waste.

➤ Waste disposal vs. incinerators

➤ Strip-mining, cutting of forests, development of agriculture land for housing and industry.

➤ The Superfund.



Product Lifecycle Stages

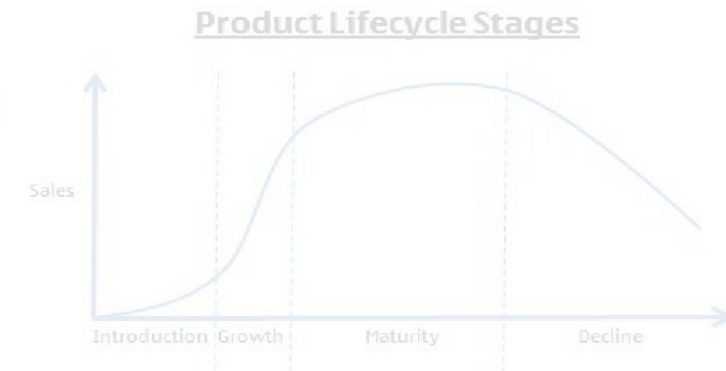
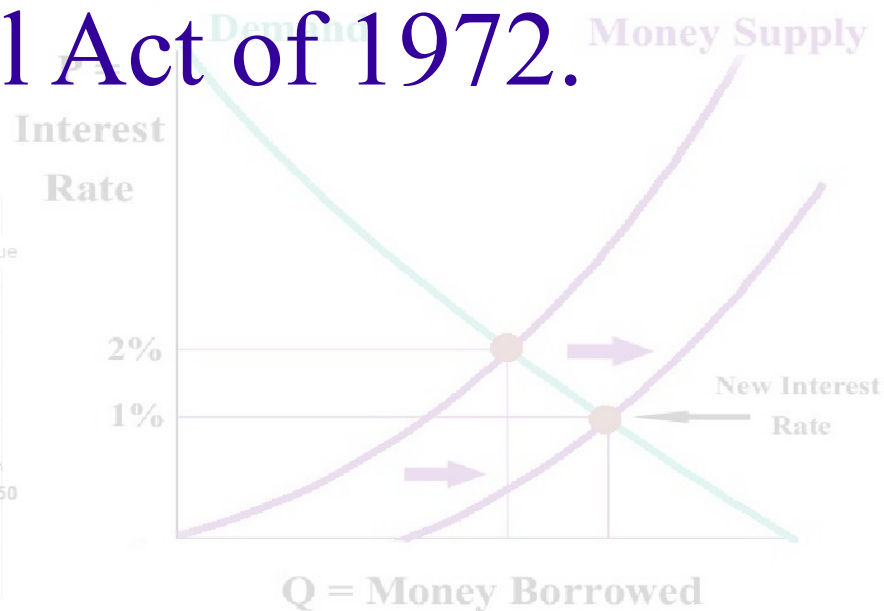
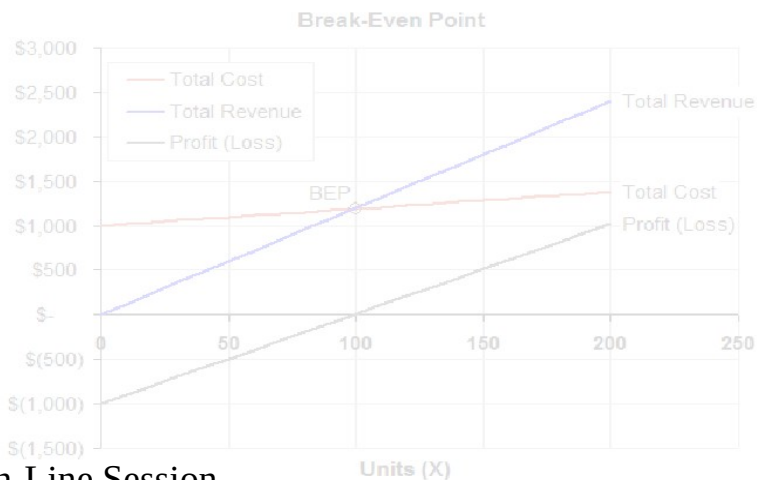




# Environment: Noise pollution

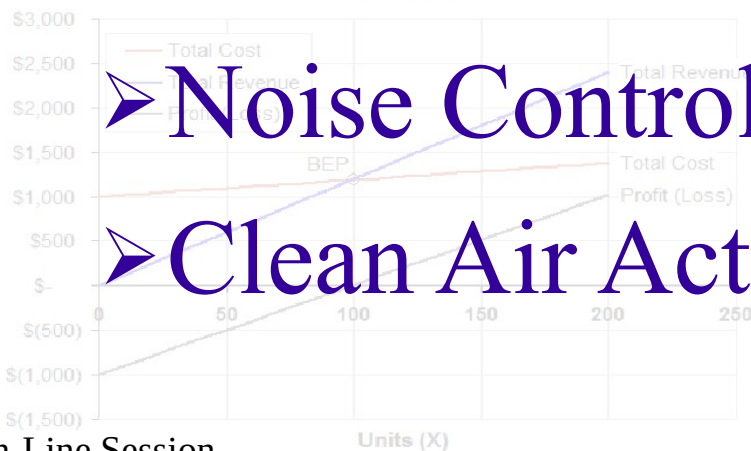
- Excessive noise.
- Reducing noise levels.

- Noise Control Act of 1972.



# Major environmental laws (1970s)

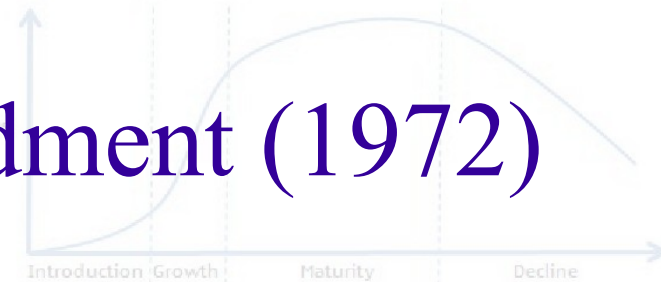
- National Environmental Policy Act (1970)
- Clean Air Amendment (1970)
- Water Quality Improvement Act (1970)
- Resource Recovery Act (1970)
- Water Pollution Control Act Amendment (1972)
- Noise Control Act (1972)
- Clean Air Act Amendment (1977)



$P =$   
Interest  
Rate



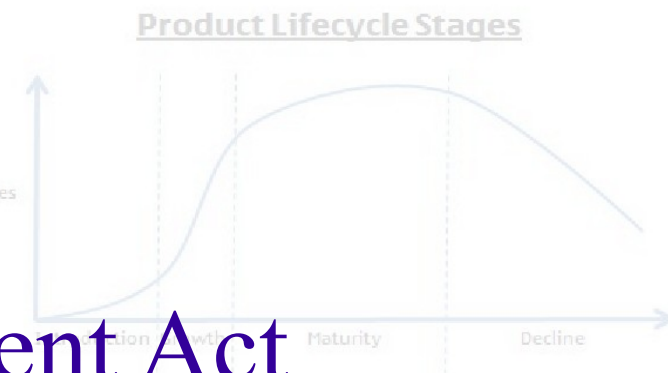
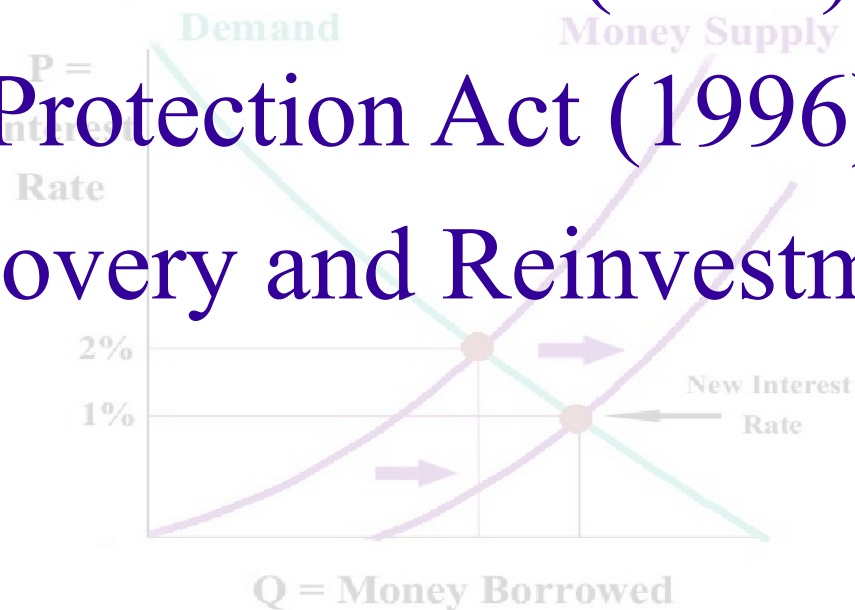
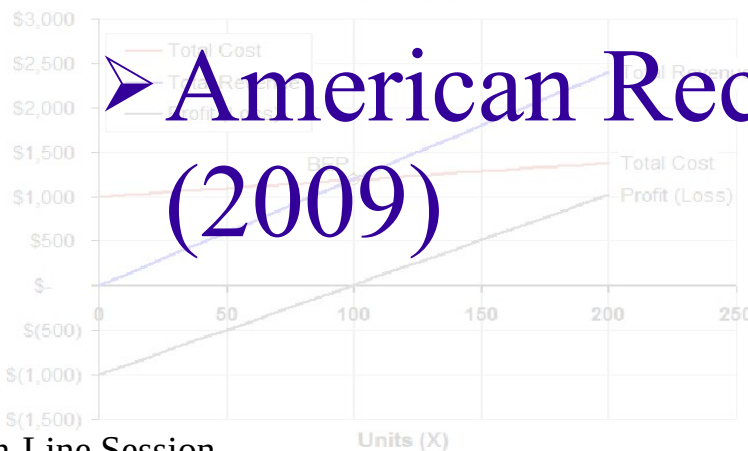
Product Lifecycle Stages





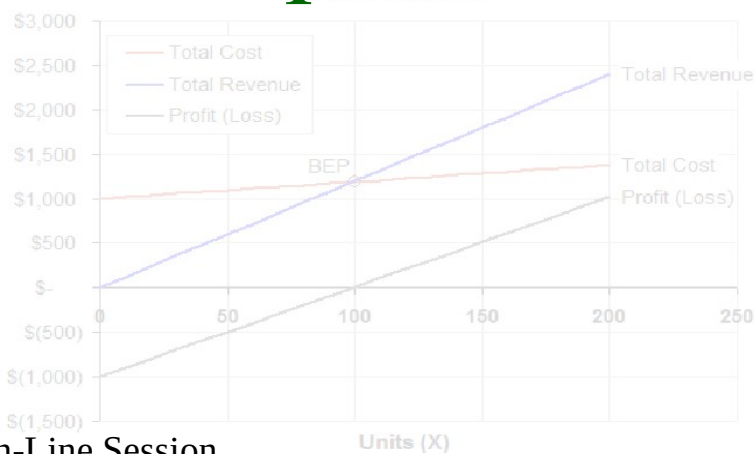
# Major environmental laws post-1970

- Resource Conservation and Recovery Act (1984)
- Clean Air Act Amendment (1987)
- Oil Pollution Act (1990)
- Clean Air Act Amendments (1990)
- Food Quality Protection Act (1996)
- American Recovery and Reinvestment Act (2009)

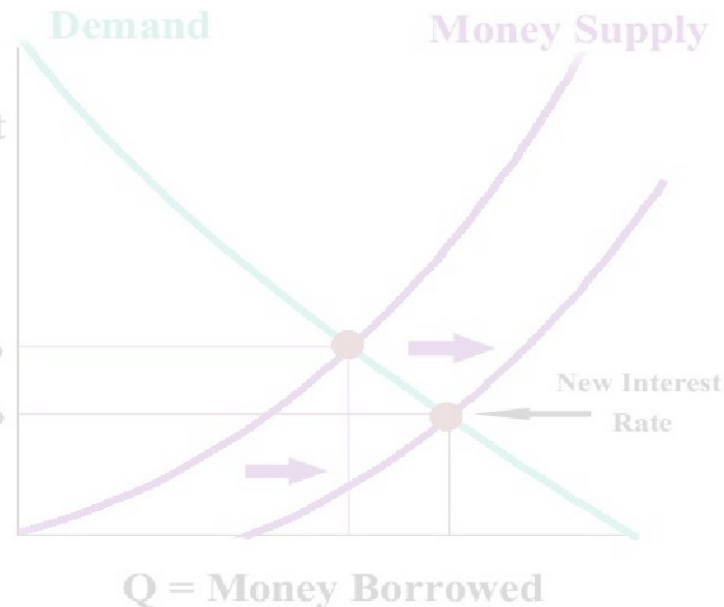


# Encourage ethical behavior

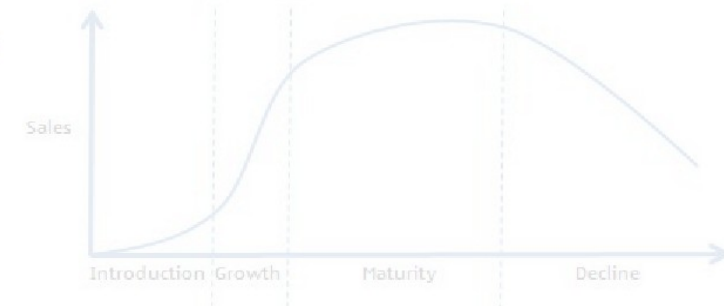
- ◆ The three questions...
- ◆ External to a specific organization
- ◆ Within an organization
- ◆ Whistle-blowing
- ◆ Implementation



P =  
Interest  
Rate



Product Lifecycle Stages





# The three questions...

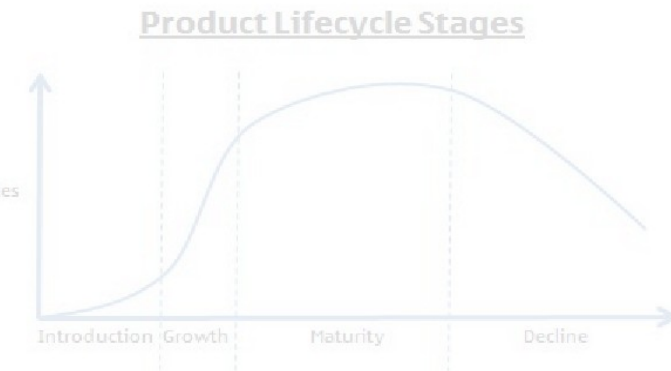
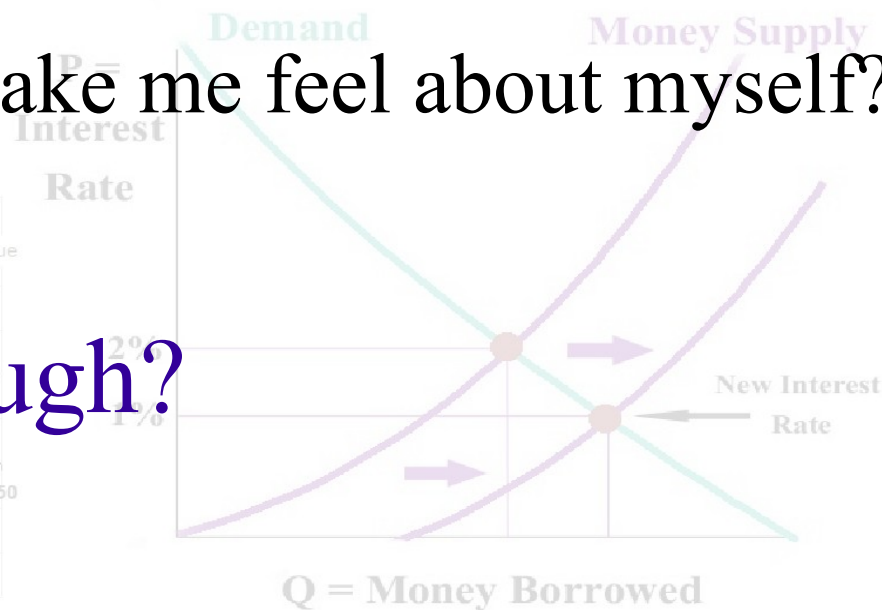
Ask yourself these questions:

❑ Is it legal?

❑ Is it balanced?

❑ How will it make me feel about myself?

Are they enough?



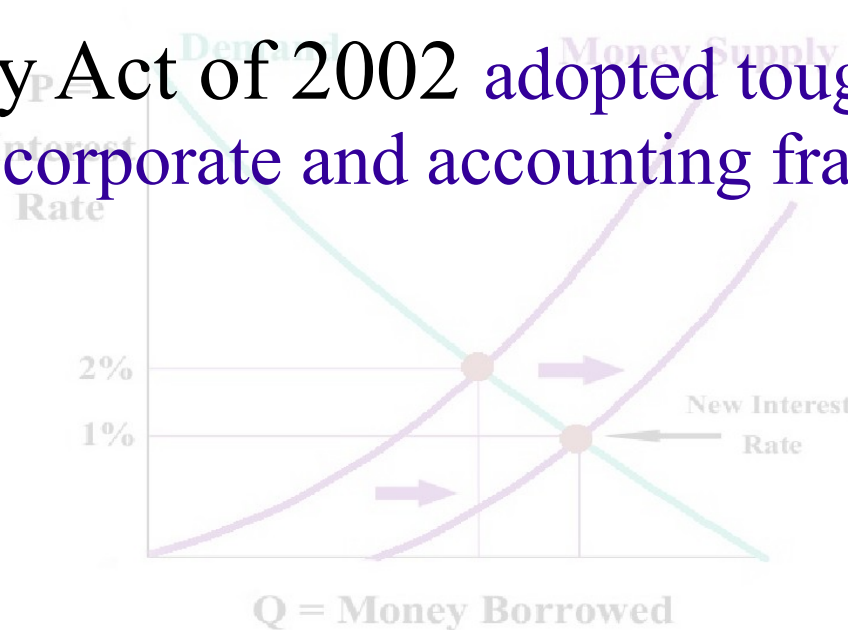
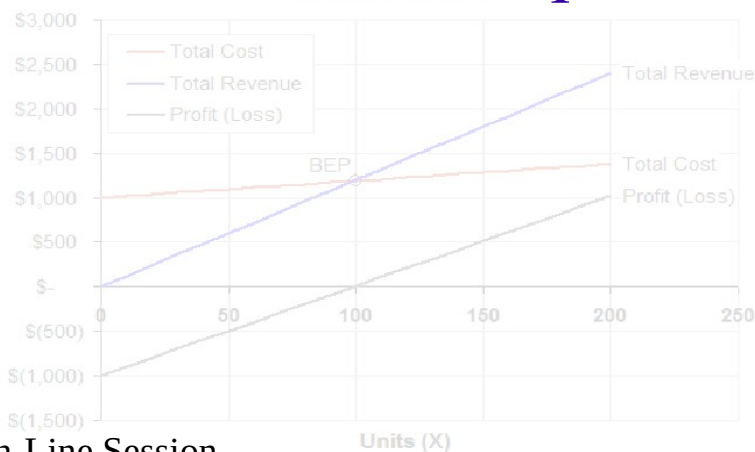
# External to a specific organization

## ➤ Trade association guidelines

- ❑ Fear of government intervention
- ❑ Prefer self regulating

## ➤ Governmental legislation and regulations

- ❑ Sarbanes-Oxley Act of 2002 adopted tough new provisions to deter and punish corporate and accounting fraud and corruption.





# Within an organization

## ➤ Ethics codes

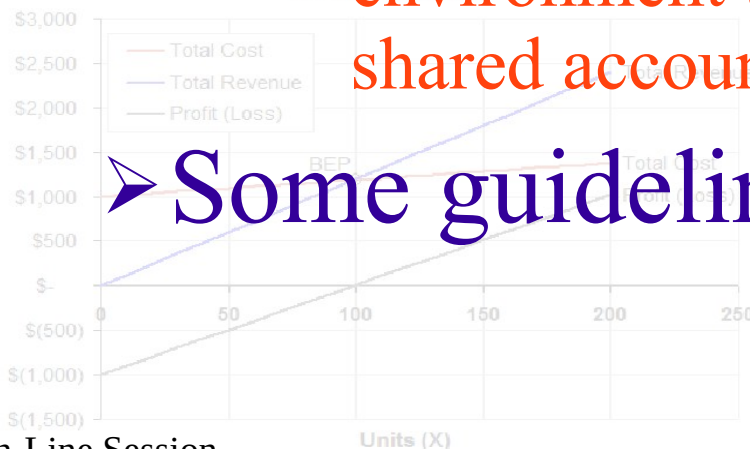
### ❑ Compliance-Based Ethics Code

Emphasize preventing unlawful behavior by increasing control and by penalizing wrongdoers.

### ❑ Integrity-Based Ethics Code

Define the organization's guiding values, create an environment that supports ethically sound behavior and stress a shared accountability.

## ➤ Some guidelines

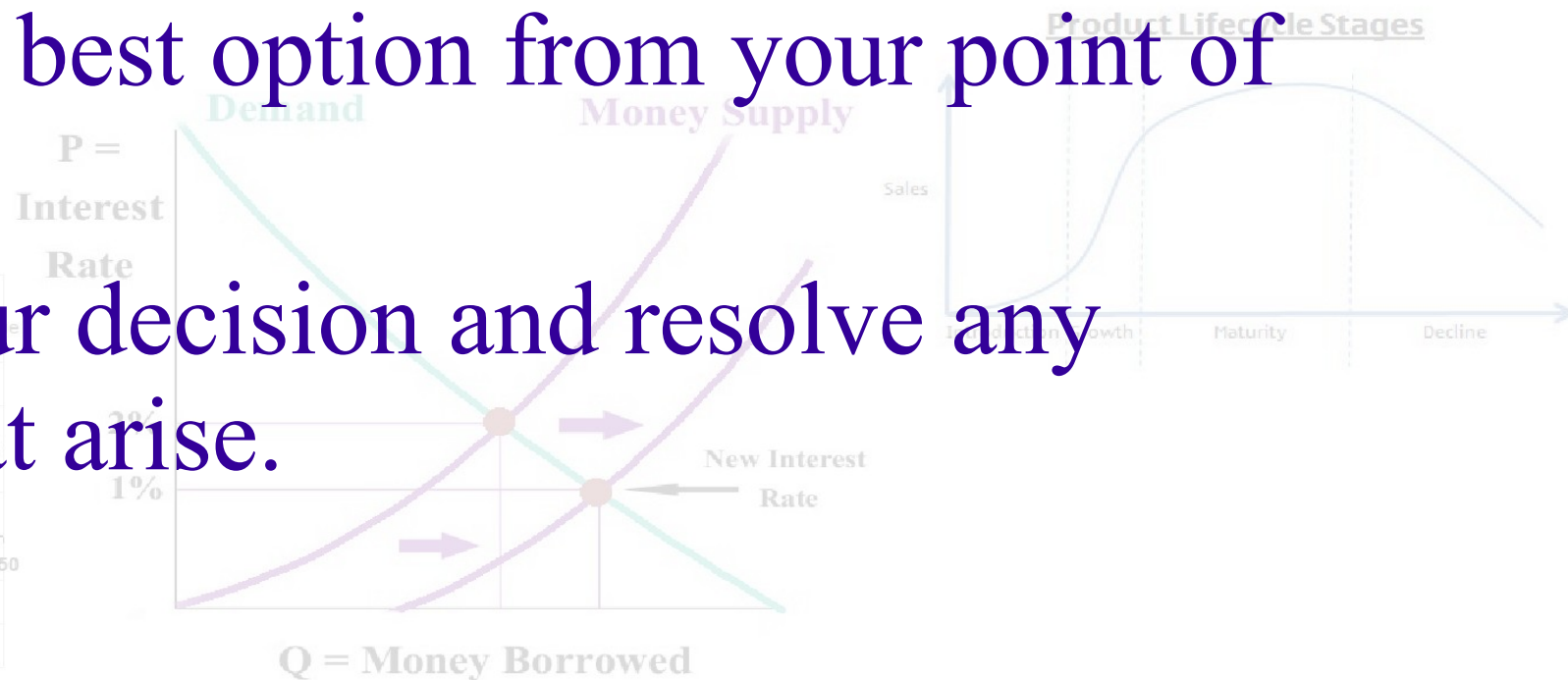
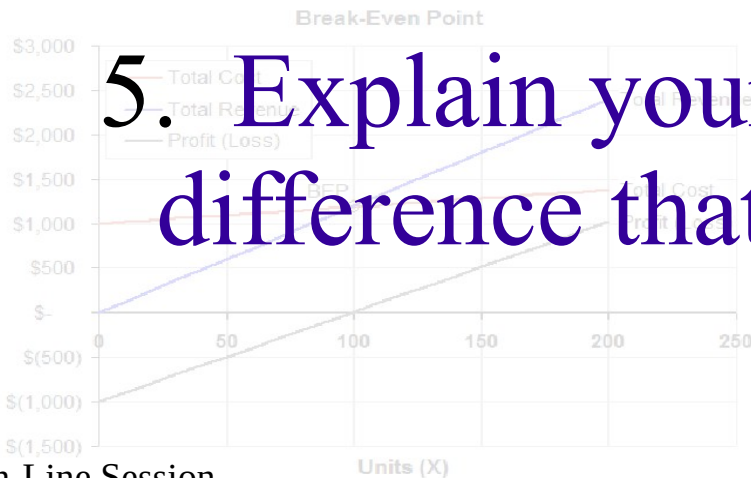


Product Lifecycle Stages



## Guidelines for making ethical decisions

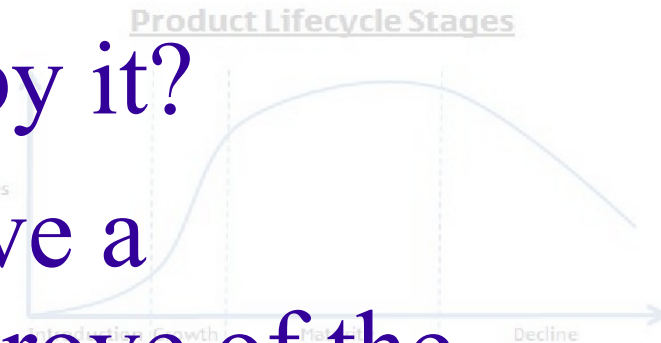
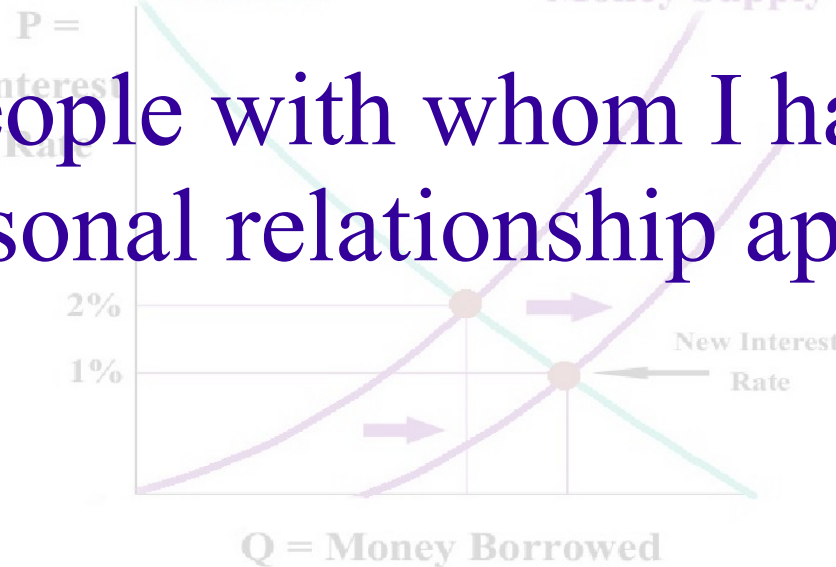
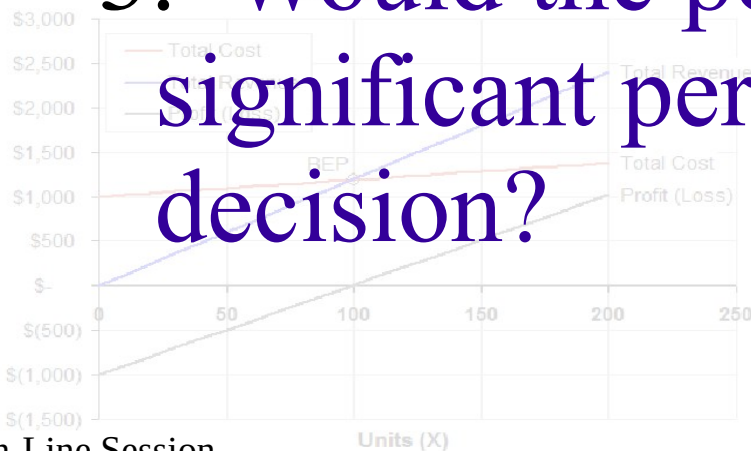
1. Listen and learn
2. Identify the ethical issues
3. Create and analyze options
4. Identify the best option from your point of view
5. Explain your decision and resolve any difference that arise.





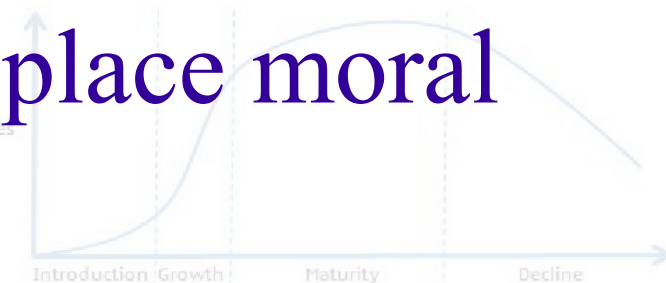
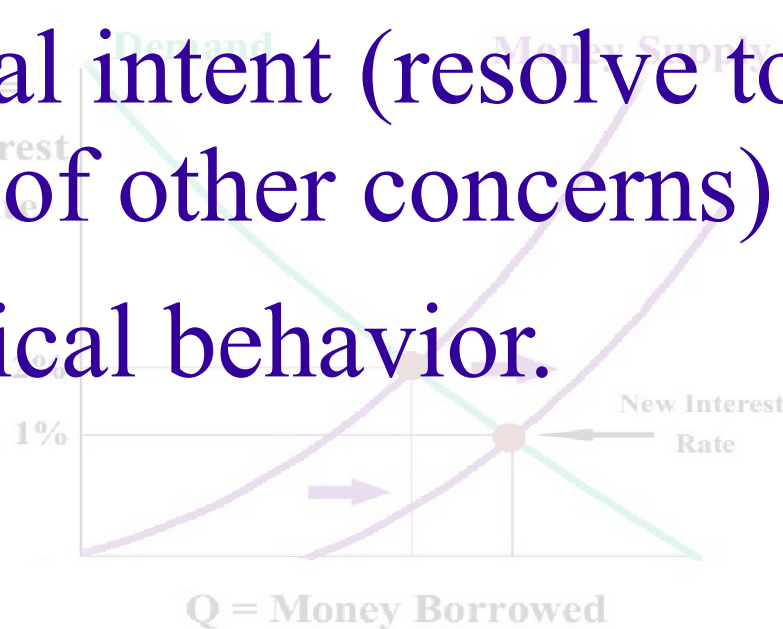
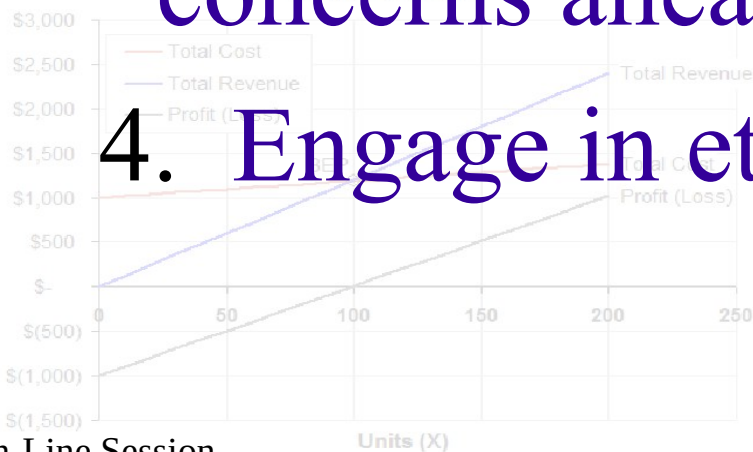
# Other guidelines

1. Does my decision fall within the accepted values or standards that typically apply in the organizational environment?
2. Am I willing to see the decision communicated publicly to all stakeholder affected by it?
3. Would the people with whom I have a significant personal relationship approve of the decision?



# More guidelines

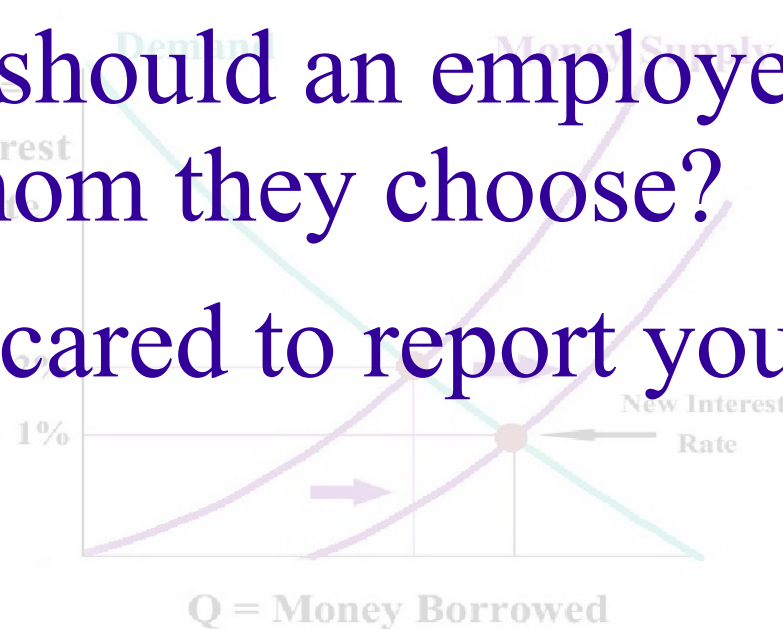
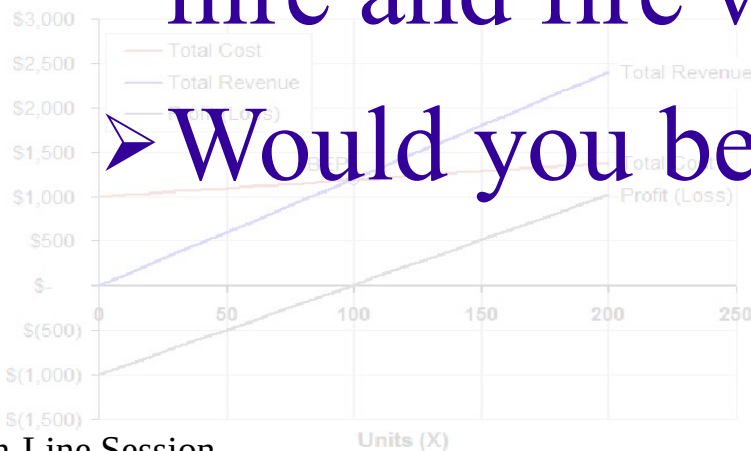
1. Identify which stakeholders the decision would affect and in what ways.
2. Judge the ethics of the proposed strategic decision given the information from the last step
3. Establish moral intent (resolve to place moral concerns ahead of other concerns)
4. Engage in ethical behavior.





# Whistle blowing

- Informing the press or government officials about unethical practices within one's organization
- How important is whistleblower protection?
- To what extent should an employer be free to hire and fire whom they choose?
- Would you be scared to report your employer?



# Implementing good SR

## ➤ Developing a program of social responsibility

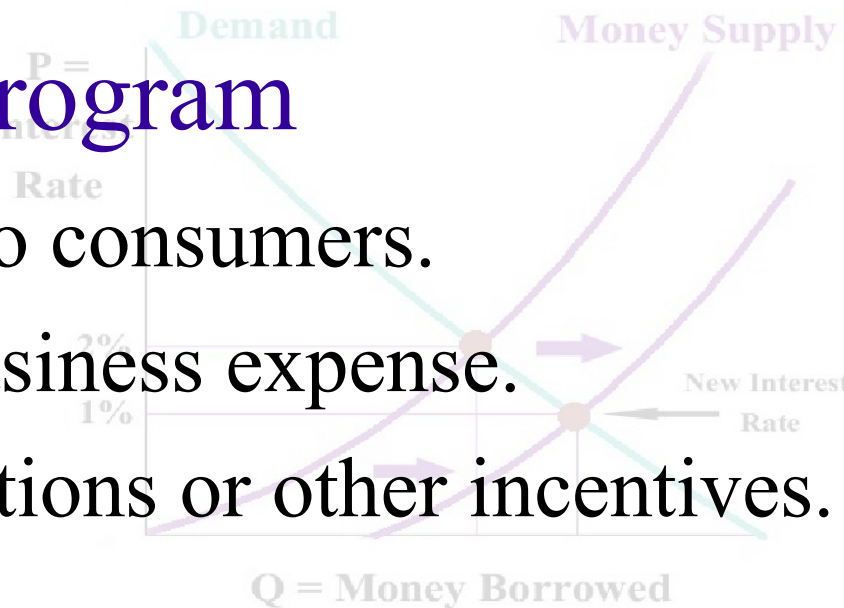
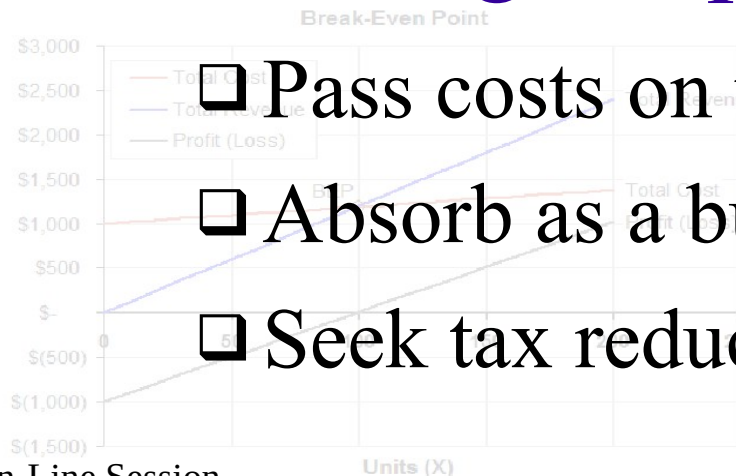
- ❑ Top executives.
- ❑ Prepare a social audit – A comprehensive report of what the organization has done and is doing with regard to social issues that affect it.

## ➤ Funding the program

- ❑ Pass costs on to consumers.
- ❑ Absorb as a business expense.
- ❑ Seek tax reductions or other incentives.

MERGERS AND ACQUISITIONS

Product Lifecycle Stages





# TED talks

## ◆ Alexander Wagner

- What really motivates people to be honest in business

## ◆ Wendy Woods

The business benefits of doing good

## ◆ William Black

How to rob a bank (from the inside that is)

