Chapter 1
ETHICS AND BUSINESS
ETHICS IS TOUGHER THAN YOU THINK . . .

A person with outward courage dares to die.
A person with inward courage dares to live.

- Lao Tzu
CHAPTER OBJECTIVES

After exploring this chapter, you will be able to:

1. Explain why ethics is important in the business environment.
2. Explain the nature of business ethics as an academic discipline.
3. Distinguish the ethics of personal integrity from the ethics of social responsibility.
4. Distinguish ethical norms and values from other business-related norms and values.
5. Distinguish legal responsibilities from ethical responsibilities.
7. Distinguish ethical decision-making from other practical decision situations.
OPENING DECISION POINT: Selling Less Meat

Would it be good to sell less meat?

- Meat is a socially controversial product today.
- Many Americans today do not have healthy diets. This is bad for individuals, but also bad for society as a whole. Saturated fats from meat are part of the overall picture.
- Meat production also has environmental implications, and many people object to the levels of suffering implied by modern animal agriculture.
- But Americans love meat, and consume great quantities of it.
OPENING DECISION POINT:
*Selling Less Meat*

- Sodexo – a food services company – experimented with “Meatless Monday” – offering customers a range of non-meat options (in addition to regular offerings).
- Could this be a win-win? Good for consumers, good for the company?
PURPOSE OF OUR DISCUSSION: LEARNING OBJECTIVES

- **Sensitivity**: To insure that you are aware of/sensitive to ethical issues in all aspects of the business environment and professional exchanges.

- **Skill-building**: To provide you with reasoning and decision-making tools to help you think through ethical issues and to respond sensibly when faced with such issues.

- **Integration**: To enable you to effectively integrate your personal values and reasoning skills into all of what you do and stand for.
PURPOSE OF OUR DISCUSSION: LEARNING OBJECTIVES

- **Practice**: To give you opportunities to "practice" values integration and ethical reasoning processes in case experiences.
- **Understanding**: To offer you a deep understanding of the role you play in forming organizational culture and the means by which you can impact it in a positive manner.
- **Reinforcement**: To reinforce the resources available to you if confronted with ethical situations.
BUSINESS ETHICS IS A PROCESS OF RESPONSIBLE DECISION-MAKING

- The scandals and ruin experienced since the Enron collapse were brought about by ethical failures.
- We will discuss a decision-making model that can help individuals to understand such failures and avoid future business and personal tragedies.

Why explore ethics in business?

Because

Ethics Failures = Business Failures
AN ETHICAL CORPORATE CLIMATE . . .

“…is either developing or deteriorating, enriching itself or impoverishing itself. It needs constant care and attention.”

Study by the Woodstock Center Georgetown University, D.C.
AN ETHICAL CORPORATE CLIMATE...

“...the hottest places in hell are reserved for those who, in a period of moral crisis, maintain their neutrality.”

- Dante

“In morality, as in literature – or in any field of human creativity – indifference is the enemy; indifference to evil is worse than evil.”

- Elie Wiesel, Nobel Peace Prize Laureate
WHY IS ETHICS IMPORTANT IN THE BUSINESS ENVIRONMENT?

Consider the range of people who were harmed by the collapse of Enron.

- Stockholders lost over $1 billion in stock value.
- Thousands of employees lost their jobs, their retirement funds, and their health care benefits.
- Consumers in California suffered from energy shortages and blackouts that were caused by Enron’s manipulation of the market.
- Hundreds of businesses that worked with Enron as suppliers suffered economic loss with the loss of a large client.
WHY IS ETHICS IMPORTANT IN THE BUSINESS ENVIRONMENT?

- Enron’s accounting firm, Arthur Andersen, went out of business as a direct result.
- The wider Houston community was also hurt by the loss of a major employer and community benefactor.
- Families of employees, investors, suppliers were also hurt.
- Many of the individuals directly involved will themselves suffer criminal and civil punishment, including prison sentences for some.
The consequences of unethical behavior and unethical business institutions are too serious for too many people to be ignored.

Multiply the harms by the dozens of other companies implicated in similar scandals and one gets an idea of why ethics is no longer dismissed as irrelevant.
The decisions made within a business firm will affect many more people than only an individual.

Ethically responsible business decision-making must move beyond a narrow concern with stockholders, and consider the impact that decisions will have on a wide range of stakeholders.

A business stakeholder will be anyone who affects or is affected by decisions made within the firm.

Failure to consider these additional stakeholders will have a detrimental impact on those stakeholders, stockholders, and on the firm’s long-term sustainability.
WHY CARE ABOUT ETHICS?

- Unethical behavior creates financial and marketing risks.
- A company can go out of business, and its employees can go to jail, if no one is paying attention to the ethical standards of the firm.
- A firm’s ethical reputation can provide a competitive advantage, or disadvantage.
- Consumer boycotts give even the most skeptical business leader reason to pay attention to ethics.
- Managing ethically can also pay significant dividends in organizational structure and efficiency.
- Trust, loyalty, commitment, creativity, and initiative are just some of the organizational benefits that are more likely to flourish within ethically stable and credible organizations.
REALITY CHECK

Why be ethical? Because the Law Requires It!
Under Sarbanes-Oxley (2002), a company’s Code of Ethics must include standards that promote:

1. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
2. Full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the issuer.
3. Compliance with applicable governmental rules and regulations.
"While the headlines are going to all the guys who are doing it wrong, there is a very strong corps of people who are really committed to doing it right. Part of doing it right is you're not doing it to get headlines. You're doing it to really make a difference in the lives of people."

-- Georgetown College President Bill Crouch, speaking at a business ethics conference sponsored by the Ethical Leadership Institute. ("Strong Ethics Help Businesses Succeed, Conference Speakers Say," AP, Mar. 25)
Decisions which follow from a process of thoughtful and conscientious reasoning will be more responsible and ethical decisions.

Responsible decision-making and deliberation will result in more responsible behavior.

What is the point of a business ethics course?

- Ethics refers not only to an academic discipline, but to that arena of human life studied by this academic discipline, namely, how human beings should properly live their lives.
- An ethics course will not change your capacity to think, but it could stimulate your choices of what to think about.
An ethics class strives to produce more ethical behavior among the students who enroll. But the only academically and ethically legitimate way to do this is through careful and reasoned decision-making.

A process of rational decision-making, a process that involves careful thought and deliberation, can and will result in behavior that is both more reasonable and more ethical.
SO, WHAT DO WE MEAN BY “ETHICS?”
ETHICS IS NOT THIS:

I'm just slipping into something more ethical
WHAT IS “ETHICS?”

At its most basic level, ethics is concerned with how we act and how we live our lives.
WHAT IS “ETHICS?”

- Ethics involves what is perhaps the most monumental question any human being can ask:

  How *should* we live?

- Ethics is, in this sense, *practical*, having to do with how we act, choose, behave, do things.
- Philosophers often emphasize that ethics is *normative*, in that it deals with our reasoning about how we *should* act.
WHAT IS “ETHICS?”

How should we live?

- This fundamental question of ethics can be interpreted in two ways.
- "We" can mean each one of us individually, or it might mean all of us collectively.
- In the first sense, this is a question about how I should live my life, how I should act, what I should do, what kind of person I should be.
- This meaning of ethics is sometimes referred to as **morality**, and it is the aspect of ethics that we refer to by the phrase “**personal integrity**.”
PERSONAL RESPONSIBILITY VS. SOCIAL RESPONSIBILITY?

- There will be many times within a business setting where an individual will need to step back and ask:

  **What should I do? How should I act?**

- Social ethics raises questions of justice, public policy, law, civic virtues, organizational structure, and political philosophy.

- In the second sense, “How should we live?” refers to how we live together in a community.

- Business ethics is concerned with how business institutions ought to be structured, about corporate social responsibility, and about making decisions that will impact many people other than the individual decision-maker.
PERSONAL INTEGRITY VS. SOCIAL RESPONSIBILITY?

- This aspect of business ethics asks us to examine business institutions from a social rather than an individual perspective.
- We refer to this broader social aspect of ethics as decision-making for social responsibility.
DECISION POINT:  
*Ethics After an Oil Spill*

- What should Enbridge do about the spill, and who are the stakeholders here?
  - Why do you think Enbridge gave the people of Wrigley $5,000 to hire a consultant? Why do you think the community was insulted by this? Would you have offered them that money?
  - Would Enbridge executives and the people of Wrigley disagree on what key values are involved in this situation?
  - Did Enbridge have obligations that went beyond cleaning up the spill? Should they do something to “give back” to the community?
A company’s core values, for example, are those beliefs and principles that provide the ultimate guide in its decision-making.

Individuals can have their own personal values and, importantly, institutions also have values.
One way to distinguish various types of values is in terms of the ends that they serve.

- Financial values serve monetary ends, religious values serve spiritual ends, aesthetic values serve the end of beauty, legal values serve law, order, and justice, and so forth.
- Different types of values are distinguished by the various ends served by those acts and choices.

So, how are ethical values to be distinguished from these other types of values? What ends are served by ethics?

- Ethical values are those beliefs and principles that impartially promote human well-being.
The law provides a very important guide to ethical decision-making, but legal norms and ethical norms are not identical nor do they always agree.

Over the last decade, many corporations have established ethics programs and hired ethics officers who are charged with managing corporate ethics programs.

Much good work gets done by ethics officers, but it is fair to say that much of this focuses on compliance issues. The Sarbanes-Oxley Act created a dramatic and vast new layer of legal compliance issues.
CAN’T THE LAW ANSWER THE QUESTION OF RIGHT OR WRONG?

- What’s good about this approach?
- What’s challenging (negative) about this approach?
WHY LEGAL COMPLIANCE IS INSUFFICIENT?

- Holding that obedience to the law is sufficient to fulfill one’s ethical duties begs the question of whether the law, itself, is ethical.
- Societies that value individual freedom will be reluctant to legally require more than just an ethical minimum.
- On a practical level, telling business that its ethical responsibilities end with obedience to the law is just inviting more legal regulation.
- The law cannot possibly anticipate every new dilemma that businesses might face; so, often, there may not be a regulation for the particular dilemma that confronts a business leader.
- The perspective that compliance is enough relies on a misleading understanding of law.
RISK ASSESSMENT

- It is a process to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.
A 2010 survey published by Corporate Responsibility Magazine indicated that two thirds of companies said that at least one of their products is marketed by means of ethics-themed messaging.

About one third of companies said they had actual evidence that attention to corporate responsibility had improved their bottom lines.

Is that a lot, or a little?

How easy would such evidence be to find, if it exists?

International comparisons:

Just over one third of U.S.-based companies said they employ a dedicated “corporate responsibility officer.”

But nearly two-thirds of European and Asian companies had such a position.

And about half of companies based in Canada did.
How is ethical decision-making different from other decision-making?

- Ethics is practical and normative.
- Ethics is therefore a vital element of **practical reasoning**: reasoning about what we should *do*, and is distinguished from **theoretical reasoning**, which is reasoning about what we should *believe*.
- Theoretical reason is the pursuit of truth, which is the highest standard for what we should believe.
PHILOSOPHICAL ETHICS AND THEORIES

- Is there a comparable methodology or procedure for deciding what we should do and how we should act?
- There are guidelines that can provide direction and criteria for decisions that are more or less reasonable and responsible: philosophical ethics.

Ethical theories are patterns of thinking, or methodologies, to help us decide what to do.
DISCUSSION OF OPENING
DECISION POINT:
*Selling Less Meat*

- The “Meatless Mondays” experiment at Sodexo cafeterias was not the win-win the company had hoped for.
  - Some saw a drop in sales.
  - Some saw a drop in customer satisfaction ratings.

- But the experiment wasn’t a disaster, either. So Sodexo faces a real dilemma, a choice between what it thinks is best for shareholders and what it thinks is socially responsible.

- This is a subtle dilemma, not like the crises that made Enron and AIG famous!
DISCUSSION OF OPENING DECISION POINT:
Selling Less Meat

- Business doesn’t exist in a vacuum.
  - The “rules of the game” include not just laws, but social values too.
- Business needs to evolve as social values evolve.
  - Would “Meatless Mondays” even have been plausible at all, 20 years ago?
  - Is a “Meatless Mondays” program likely to work better 10 years from now?
CHAPTER ONE VOCABULARY TERMS

After examining this Chapter, you should have a clear understanding of the following Key Terms and you will find them defined in the Glossary:

- Descriptive ethics
- Ethical values
- Ethics
- Morality
- Normative ethics
- Norms
- Personal integrity
- Practical reasoning
- Risk assessment
- Stakeholders
- Social ethics
- Theoretical reasoning
- Values