INTRODUCTION TO BUSINESS ETHICS

Business Ethics & Principles

*Business Ethics* comprises the principles, values, and standards that guide behavior in the world of business.

*Principles* are specific and pervasive boundaries for behavior that are universal and absolute.

Myths about Business Ethics

1. **Myth: Business ethics is more a matter of religion than management.** Dianna Kirrane, in “managing values: A systematic approach to Business ethics”, Training and Development Journal, November 1990), asserts that “altering peoples values or souls isn’t the aim of an organization ethics program—managing values and conflict among them is …”

2. **Myth: Our employees are ethical so we don’t need attention to business ethics.** Most of the ethical dilemmas faced by managers in the work place are highly complex. Wallace explains that on knows when they have a significant ethical conflict when there is presence of;
   a. Significant value conflicts among differing interests.
   b. Real alternatives that are equally justifiable, and
   c. Significant consequences on “stakeholder” in the situation.

3. **Myth: Business ethics is a discipline best led by philosophers, academics and theologians.** Lack of involvement of leaders and managers in business ethics literature and discussions has led many to believe that business is a fad or movement, having little to do with the day – to – day realities of running an organization. They believe business ethics is primarily a complex philosophical debate or a approach that include several practical tools. Ethics management programs have practical applications in other areas of management areas, as well.

4. **Myth: Business ethics is superfluous—it only asserts the obvious: “do good!”** Many people react that codes of ethics, or lists of ethical values to which the organization aspires, are rather superfluous because they represent values to which everyone should naturally aspire. However, the value of a code of ethics to an organization is its priority and focus regarding certain ethical values in that workplace. For example, its obvious that all people should be honest. However, if an organization is struggling around continuing occasions of deceit in the workplace, a priority on
honesty is very timely—and honesty should be listed in that organization’s code of ethics. Note that a code of ethics is an organic instrument that changes with the need of society and the organization.

5. **Myth: Business ethics is a matter of the good guys preaching to the bad guys.** Some writers do seem to claim a moral high ground while lamenting the poor condition of business and its leaders. However, those people well versed in managing organizations realize that good people can take bad actions, particularly when stressed or confused. (Stress or confusion are not excuses for unethical actions—they are reasons.) Managing ethics in the workplace includes all of us working together to help each other remain ethical and to work through confusing and stressful ethical dilemmas.

6. **Myth: Business ethics in the new policeperson on the block.** Many believe business ethics is a recent phenomenon because of increased attention to the topic in popular and management literature. However, business ethics was written about even 2,000 years ago—at least since Cicero wrote about the topic in his *de officiis*. Business ethics has gotten more attention recently because of the social responsibility movement that started in the 1960s.

7. **Myth: Ethics can’t be managed.** Actually, ethics is always “managed”—but, too often, indirectly. For example, the behavior of the organization’s founder or current leader has a strong moral influence on morality. Laws, regulations, and rules directly influence behaviors to be more ethical, usually in a manner that improves the general good and/or minimizes harm to the community. Some are still skeptical about business ethics, believing you can’t manage values in an organization.

8. **Myth: Business ethics and social responsibility is the same thing.** The social responsibility movement is one aspect of the overall discipline of business ethics.

9. **Myth: Our organization is not in trouble with the law, so we’re ethical.** One can often be unethical, yet operate within the limits of the law, e.g., withhold information from superiors, fudge on budgets, constantly complain about others, etc. However, breaking the law often starts with unethical behavior that has gone unnoticed. The immediately jump out. If you put a frog in cool water and slowly heat up the water, you can eventually boil the frog. The frog doesn’t seem to notice the adverse change in its environment.

10. **Myth: Managing ethics in the workplace has little practical relevance.** Managing ethics in the workplace involves identifying and prioritizing values to guide behaviors in the organization, and establishing associated policies and procedures to ensure those behaviors are conducted. One might call this “values management”. Values management is also highly important in other management practices, e.g., managing diversity, Total Quality Management and other strategic planning.
Importance of Business Ethics

Commerce depends for its very existence on the ethical behavior of a vast majority of participants.

Every time a person chooses between alternatives, the choice is based on assumptions that lie at the heart of the moral code.

The code is grounded in values that provide framework for principle reasoning and ethical decisions.

Ethical practices make good business sense because ethical companies suffer less resentment, less litigation and less regulatory oversight.

Ethical managers and ethical businesses tend to be more trusted and better treated by their shareholders e.g. employees, consumers etc.

Organizations are a reflection of society and each organization is a fluid enterprise.

An organization has at its center, managers responsible for directing resources of the company, shareholders who own the capital and expect a return on their investment, workers who produce the good and expect decent wages and safe working conditions.

Administrative actions are shaped by three domains: legality, free choice and integrity.

The law defines and constrains the limits of potential actions though we should note that what is legal is not necessarily moral.

Free choice represents the complete freedom of choice to do anything one desires, but the right to do whatever we want exists as long as our actions don’t negatively affect others.

To have a successful enterprise each group must be responsible to the others.

For an enterprise to continuously give value to human effort and encourage creative achievement, a balance of interest is required.

Ethics

It represents unwritten and unspoken guidelines for behavior, for which no legal mandates or prohibitions exist.

Ethics is different from law because it involves no formal sanctions.

It is different from religion because it makes no theological assumptions.

It is different from aesthetics because it is aimed at conduct and character rather than objects.

Ethics is a process of inquiry and code of conduct.

Code conduct enables people to see how right or wrong their actions are.

Relationship between Ethics & Morals
Values are core beliefs about what is intrinsically desirable.

Values give rise to ideals that are called ethics or morals.

Ethics and morals are interchangeable terms referring to ideals of character and conduct.

Ethical inquiry needs the concentration of facts in the light of important values.

All decision makers rely on a moral code when conscientiously applied to issues at hand; moral code maximizes the most important values.

**Philosophical foundations of Ethics**

Systematic instigation of ethics dates back to the days of Plato’s republic to Emanuel Kant’s Critique of Judgment.

Kant declared that lying is never justified.

His philosophy encompassed the fact that people should behave in such a manner that if everyone else acted the same way, then everyone would benefit.

Plato longed for a benevolent dictatorship.

New contemporary philosopher John Rawls focused on the best way to achieve equal amounts of liberty for everyone else in the face of inevitable inequalities.

Deontology is a view that holds that there are universal rules that serve as moral guidelines.

The utilitarian approach assumes that the moral worth of actions is determined solely by consequences of the actions.

**Administrative Ethics**

Fundamental questions that require positive response:-

- a) Should anyone do what is right when doing so is not to that person’s advantage?
- b) Does anyone do what is right when doing so is not to that person’s advantage?
- c) Can anyone know what is right?

**Values as guideposts for ethical decision making**

- a) *Caring*. This is treating people as ends in themselves and not means to an end.
- b) *Honesty*. This is being truthful and not deceiving or distorting, especially in the long run; deceptions only undermine capacity for open exchange and erode credibility.
- c) *Accountability*. This is accepting the consequences of one’s actions.
- d) *Promise keeping*. It refers to honoring one’s commitment.
- e) *Pursuit of excellence*. This means being diligent, industrious and committed.
- f) *Loyalty*. Being faithful to those with whom one has dealings.
g) *Fairness.* Being open-minded; willing to admit error and not taking undue advantage of another’s weakness.

h) *Integrity.* Avoiding conflict of interest and using independent judgment.

i) *Respect for others.* This is recognizing each person’s right to privacy and having respect for human dignity.

j) *Responsible citizenship.* Actions should be in accordance with social values.

**Code of Ethics & the Role they play in the work place**

Ethical code is a statement of aspirations and a code of commitment for stakeholders.

They address the ten core values.

They are intended to make people make ethical decisions.

**Reasons for studying Business Ethics**

It helps one to recognize the relationship between legal and ethical decisions.

Individuals’ personal values and moral philosophies are only factors in the ethical decision-making process.

Professionals in any field have to deal with individual’s personal moral dilemmas in one’s personal life.

Organizations are culturally diverse and personal values must be respected, ensuring collective agreement on organizational ethics as a vital effort an organization’s management can undertake.

Studying Business Ethics will help you begin to identify ethical issues when they arise and recognize the approaches available for resolving them.

**History of Business Ethics**

The study of Business Ethics in North America has evolved through five distinct stages:-

Before 1960

The 1960s

The 1970s

The 1980s

The 1990s

The 21st Century

*Before 1960s*

Prior to 1960, the US went through several agonizing phases of questioning the concept of capitalism.
In the 1920s, the progressive movement attempted to provide citizens with a “living wage”, defined as income sufficient for education, recreation, health and retirement.

The 1930s came with the New Deal, which specifically blamed business for its economic woes. Business worked hand-in-hand with the government to raise the living standards of the citizens.

Until 1960, ethical issues related to business were often discussed in churches, synagogues and mosques. Some Catholic and Protestant colleges and universities taught about social ethics.

*The 1960s*

During 1960s, American society turned to causes.

An ant business attitude developed as many critics attacked vested interests that controlled the economic and political sides of the society.

The 1960s saw the decay of inner cities and growth of ecological problems such as pollution.

In 1962, President J.F. Kennedy delivered a special message on protecting consumer interest which came to be known as Consumer’s Bill of Rights. It advocated for the following:-

- a) Right to safety
- b) Right to be informed
- c) Right to choose
- d) Right to be heard

*The 1970s*

Business Ethics began to develop at this time.

Theologians and philosophers laid groundwork by suggesting that certain principles could be applied to business activities.

Using this foundation, business professors began to teach about corporate social responsibility, an organization’s obligation to maximize its positive impact on stakeholders and minimize the negative impact.

By the end of the 1970s, a number of ethical issues had emerged such as bribery, price collusion, product safety and the environment.

*The 1980s*

Business academics and practitioners acknowledge business ethics as a field of study.

Business Ethics organizations grew to include thousands of members.

Five hundred courses in Business Ethics were offered at colleges across America.
The Defense Industry initiative on Business Ethics and Conduct (DII) was developed to guide corporate support for ethical conduct.

In the Regan-Bush areas, with the accompanying belief that self-regulation, rather than regulation by government, was in the public interest.

Many tariffs and trade barriers were lifted and businesses merged and divested within global atmosphere.

*The 1990s*

The President Bill Clinton administration continued to support self-regulation and free trade.

The Federal Sentencing Guidelines for Organizations (FSGO), approved by Congress set the tone for organizational ethical programs in the 1990s.

Provision of the guideline mitigates penalties for when violation occurs.

The company must develop corporate values, enforce its own code of ethics and strive to prevent misconduct.

*21st Century*

Although Business Ethics appeared to become more institutionalized in the 1990s, new evidence emerged in the early 2000s that more than a few business executives and managers had not fully embraced the public’s interest for higher ethical standards.

Accounting scandals came up by falsifying financial reports and reaping questionable benefits had become part of the culture of many companies.

Such abuses increased public and political demands to improve ethical standards in business.

The Sarbanes-Oxley and FSGO have institutionalized the need to discover and address ethical and legal risk.

Top management and the board of directors of a corporation are accountable for discovering risk associated with ethical conduct.