

BUSINESS ETHICS

What are Business Ethics?

- **Ethics** are principles that explain what is right or wrong, good or bad, and what is appropriate or inappropriate in various settings. These ideas make it possible to prescribe a code of behaviour for both work and one's personal life.
- **Business ethics** provide standards or guidelines for the conduct and decision making of employee and managers.
- It was reported that nearly half the workers surveyed admitted to engaging in at least one unethical act.

Business Ethics Cont'd

- The most frequent unethical behaviours included *cutting corners on quality, covering up potentially damaging incidents, abusing or lying about sick days, and lying to or deceiving customers.*
- The workers blamed such on *daily pressure as trying to balance work and family, being forced to work longer hours due to layoffs, and poor communication for their behaviour.*
- They felt that ethical dilemmas could be reduced by better communication and a serious commitment by managers to establishing ethical standards of conduct.

Ethics Approaches

- People utilize different ethical value system. Managers typically use one of four key ethical approaches when making business decisions.
- They are utilitarianism, individualism, the rights approach, and the justice approach. Each involves a different view of what is most important to individuals and society.
- **Utilitarianism** means decisions should be made on the basis of what is good for the greatest number of people.
- This is done by examining all the people affected by a decision and choose the solution that satisfies the most people.
- Although utilitarianism strives to attain the ideal democracy by promoting good for the majority, it may overlook the rights or needs of a minority of individuals.

Ethics Approaches Cont'd

- **Individualism** people who base ethical decisions on the belief that personal self-interests should be promoted as long as they do not harm others.
- **Rights Approach** means the belief that each person has fundamental human rights that should be respected and protected.
- People have the rights of freedom of speech, privacy, and due process when charged with a crime. According to the rights approach, a decision is unethical if it deprives an individual of fundamental human rights.

Ethics Approaches Cont'd

- The rights approach provides specific criteria for judging the ethics of a decision; however, conflicting rights must be sorted out when making business decisions.
- For example, a manager who shares negative information about his former employee with another employer who is considering hiring that individual, exercising the right of free speech but may have violated the employee's right to privacy. Whose rights should have priority?

Ethics Approaches Cont'd

- **Justice Approach** means treating all people fairly and consistently when making decisions. This includes considering both distributive and procedural justice.
- ***Distributive justice*** examines the fairness of rewards, punishments, and outcomes in an organization. It asks whether an employee received compensation equitable with performance or whether the employee was overpaid or underpaid.
- ***Procedural justice*** involves the fair and consistent application of rules and procedures. When an employee is disciplined for breaking the safety rule, the procedural justice standard would be violated if other employees who broke the rule were not similarly disciplined.
- The justice approach is more flexible than other ethical approaches, because it recognizes that standards of fairness vary depending on the individuals involved in

Codes of Ethics

- When there is a void of ethical guidelines in a company, employees rely on personal value system. Creating a more standardized approach can be done by developing a code of ethics.
- A code of ethics is a formal statement of ethics and values that is designed to guide employee conduct in a variety of business situations.
- It is useful for giving employees ways to deals with conflicts of interest, gift giving and receiving, communicating with competitors, and making political contributions.
- Codes are typically published as either corporate credos or ethical policy statements. Also, many professions, such as doctors, lawyers, engineers, and professor, have code of ethics.

Codes of Ethics Cont'd

- Codes of ethics are typically published as either *corporate credos* or *ethical policy statements*.
- **Corporate Credos**
- A corporate credo details a company's responsibility to its stakeholders. Stakeholders are groups or individuals with vested interest in the performance of an organization.
- Stakeholders include employees, customers, and shareholders.
- The credo of a company is reproduced below.

Codes of Ethics Cont'd

We believe our first responsibility is to the doctors, nurses, and patient, to mothers and fathers and all others who use our products and services.

In meeting their needs everything we do must be of high quality.

We must constantly strive to reduce our costs in order to maintain reasonable prices.

Customers' orders must be serviced promptly and accurately.

Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world.

Everyone must be considered as an individual.

We must respect their dignity and recognize their merit.

They must have a sense of security in their jobs.

Compensation must be fair and adequate, and working conditions clean, orderly and safe.

We must be mindful of ways to help our employees fulfill their family responsibilities.

Employees must feel free to make suggestions and complaints.

Codes of Ethics Cont'd

There must be equal opportunity for employment, development and advancement for those qualified.

We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well.

We must be good citizens- support good works and charities and bear our fair share of taxes.

We must encourage civic improvements and better health and education.

*We must maintain in good order the property we are privileged to use,
Protecting the environment and natural resources.*

Our final responsibility is to our stockholders. Business must make a sound profit.

We must experiment with new ideas.

Research must be carried on, innovative program developed and mistakes paid for.

New equipment must be purchased, new facilities provided and new products launch.

Reserves must be created to provide for adverse times.

When we operate according to these principles, the stockholders should realize a fair return.

Johnson & Johnson

Codes of Ethics Cont'd

Ethical Policy Statements

- Ethical policy statements provide specific formulas for employee conduct.
- They answer such questions as whether a salesperson may offer a gift to a good customer, how much technical information can be shared with a competitor, whether an executive may purchase company stock in advance of a proposed merger, and whether the company can award a franchise to a relative of an employee.

Managing Ethics

- Many organizational leaders who are interested in creating ethical climates, believes there is need to change the ways in which employee behave and thereby establishing a corporate culture in which ethical behaviour is the norm.
- Among the approaches that available are *ethics training, ethical structures, whistleblower policies*.

Ethics Training

- Ethics training gives employees and managers the opportunity to actually practice handling the ethical dilemmas they are likely to experience. More than 40 percent of large U.S. companies provide ethics training to their employee.

Managing Ethics Cont'd

Most courses contain the following elements:

- messages from top executives emphasizing ethical business practices.
- Discussion of code of ethics.
- Procedures for discussing or reporting unethical behaviour.

Ethical Structure

- Ethical guidelines are one component of the ethical structure.
- The other is department that is assigned the responsibility of overseeing those guidelines.
- These two elements must be carefully coordinated.

Managing Ethics Cont'd

- One type of ethical structure uses an *ethics officers*. This individual deals with potential ethical violations and advises decision makers regarding ways to comply with the company's code of ethics.
- Another ethical structure approach is to have senior-level managers from different functions and units serve on an *ethics committee* that provides ethical oversight and policy guidance for management decisions

Whistleblower Policies

- Employees who are willing to disclose illegal, immoral, or illegitimate practices by their employer require the protection of a **whistleblower policy**.

Managing Ethics Cont'd

- Companies with whistleblower policies rely on individual employees to report unethical activities to the ethics officer or committee, which then gather facts and investigates the situation in a fair and impartial manner.
- Whistleblower policies protect these individuals from retaliation from executives or coworkers whose practices have been exposed.
- In situations in which whistleblower policies are not present, employees face many obstacles.

Whistleblower policies should include the following key features:

1. the policy encourages reporting unethical conduct and set up meaning procedures to deal fairly with reported violation.

Managing Ethics Cont'd

2. those who report violations are protected from retaliation.
3. alternative reporting procedures are provided in cases where those to whom the report must be given are involved in the wrongdoing.
4. a provision is made for anonymous reporting to an ethics officer or committee.
5. feedback on ethics violations is provided to employees so that they are aware that the policy is being taken seriously and that complaints are being investigated.
6. top management supports and is involved in the whistleblower policy.

Ethical Dilemmas in the workplace

- The workplace presents a variety of ethical challenges to managers, teams, and employees. Four examples of ethical dilemmas at work are: (1) performance appraisals, (2) employee discipline, (3) romantic relationships, (4) gift giving.
- **Performance Appraisal**
 - Performance appraisal is a formal evaluation of an employee's performance provided on a recurring basis. Typically, an employee receives feedback regarding his or her strengths and weaknesses in a document summarizing the employee's performance over the period of evaluation, which is usually one year.

Ethical Dilemmas in the workplace Cont'd

- The feedback will be used to let employees know which skills they have mastered and those which require improvement.
- Performance ratings are also used as the basis for pay increases, future work assignments, promotions and sometimes layoffs.
- It is crucial to collect accurate and fair information.
- Managers who deliberately provide false or misleading information for reasons of vengeance, dislike of a subordinate, or racial or sexual discrimination are violating ethical and legal standard.

Ethical Dilemmas in the workplace Cont'd

- **Employee Discipline**

- One tool that managers use to change an employee's behaviour when it does not meet expectations or when it is inappropriate is the discipline system. An example of a behaviour that fail to meet expectations is when an employee arrives late to work without a reasonable excuse.
- Supervisors can misuse discipline by making it a way to intimidate employees they do not like.
- When a supervisor uses employee discipline for purposes of revenge rather than to correct an inappropriate behaviour, the abuse of power is of course unethical.

Ethical Dilemmas in the workplace Cont'd

- The following are examples of unethical employee discipline.
- closely monitoring the behaviour of a disliked employee, looking for opportunity to use discipline to punish employee, while giving more slack to employees who are not on the supervisor's 'hit list'
- using rumor and unsubstantiated evidence as a basis to apply discipline to a targeted employee without giving the employee an opportunity to defend his or her conduct.

Ethical Dilemmas in the workplace Cont'd

- Here are some basic guidelines for giving employee discipline in a fair and impartial way.
- Notify employees in advance of a company's work rules and the consequences for violating them.
- Investigate the facts of an employee's misconduct before applying discipline. Give an employee opportunity to give his or her side of the story before a decision is made about whether the misconduct actually took place.
- Be consistent in the response to rule violation. Discipline should be administered consistently without favoritism or discrimination.

Ethical Dilemmas in the workplace Cont'd

Office Romance

- Romance often blossoms in the workplace. People who spend time together are likely to develop romantic feelings.
- Unfortunately, when a romantic relationship ends, as many of them do, one partner may feel angry and abandoned. A broken relationship can be highly disruptive to people who are simply trying to focus on work.

Here are two basic suggestions for ethical employee conduct in a romantic relationship at the workplace.

- public displays of affection at the workplace should be discouraged.
- employees should be prohibited from dating people they directly supervise. If a romance begins, one or other partner should be transferred.

Ethical Dilemmas in the workplace Cont'd

Giving Gifts in the Workplace

- Gift giving routinely occurs in the workplace. Employees often exchange gifts with each other during the Christmas holidays, managers give flowers to their secretaries on special occasions, and vendors customarily give merchandise such as coffee mugs or pens to prospective customers. These situations represent constructive gift giving to build relationships between people by letting them know they are appreciated.
- Sometimes, however, by accepting a gift from a vendor or employee a person faces an ethical dilemma. A test of the ethical appropriateness of accepting the gift would be to first think about how manager or coworker would perceive the gift and the person who gave it.
- If you would feel uncomfortable explaining the gift, the discomfort probably means it would be ethically problematic.

Steps to Sound Ethical Decision Making in Business.

- Gather the fact: Avoid jumping to conclusions without having the facts available to you. Consider the following questions: How did the situation occur? Are there historical facts I know? Are there facts concerning the current situation I should know?
- Define the ethical issues: Identify the ethical values at stake in this problem. Sometimes two important value are in conflict. For example, the right to privacy may conflict with the right to expect a safe workplace. Is there a code of ethics that suggest which values have the highest priority?

Steps to Sound Ethical Decision Making in Business Cont'd.

- Identify the affected parties: Start with the parties directly affected by the outcome of the decision. Next, think broadly and include other parties who may also be affected, such as employees in other units, people in the community, or customers. How would your decision affect all these parties?
- Identify the consequences: Think about the consequences for all the parties that you have identified. Do you see any highly negative consequences that must be avoided.
- Identify your obligations: Identify the obligations you feel and the reasons for each.

Steps to Sound Ethical Decision Making in Business Cont'd

- Consider your character and integrity: How would others judge your character and integrity if they knew all the facts about the decision that you were about to make. Would you feel good about disclosing your decision to a newspaper that would be read by member of your community?
- Think creatively about potential actions: Perhaps there are limitations on your ability to develop good alternatives in your ethical problem. Are they caused by your own personal interest in the outcome of the decision, such as ego or the possibility of reward? Are your motives honourable? Get the input of others when you perceive such limitations.
- Check your gut feelings: After you make a decision, check your gut feelings. Intuition can be very useful in sorting out problematic decision alternatives. If you are uncomfortable, something is probably not right.