

Chapter 8. Business ethics

“The business of business is serving society, not just making money.”
Dayton Hudson corporate constitution

- ▶ **Morals, ethics, laws**
 - ▶ Having an ethical dilemma?
- ▶ **What is business ethics?**
 - ▶ Is business ethics an oxymoron?
 - ▶ Business ethics and the law
 - ▶ Factors that affect business ethics
 - ▶ Questions to ensure ethical behavior
 - ▶ Why bother with ethics?
 - ▶ Ethical consciousness / Stakeholders
- ▶ **Corporate social responsibility**
 - ▶ Is CSR the same as business ethics?
 - ▶ Dimensions of CR



How important are ethics?



Morals, Ethics, Laws

- ▶ The International Center for Information Ethics offers a helpful distinction of classifications:
 - ▶ 1) **Morals** are customs and traditions;
 - ▶ 2) **Ethics** are critical reflection on morals;
 - ▶ 3) **Laws** are norms formally approved by state power or international political bodies (generally based on morals and ethics).

Having an ethical dilemma?

- ▶ ethical [□ε θ I k^əl]
 - ▶ *adj*
 - ▶ I. in accordance with principles of conduct that are considered correct, especially those of a given profession or group
- ▶ **Golden principle behind this:**
 - ▶ We should treat others the same way that we want others to treat us.
- ▶ There are three questions you should ask yourself whenever you are faced with an ethical dilemma:

Having an ethical dilemma?



Having an ethical dilemma?

► Is it legal?

- In other words, will you be violating any criminal laws, civil laws or company policies by engaging in this activity?

Having an ethical dilemma?

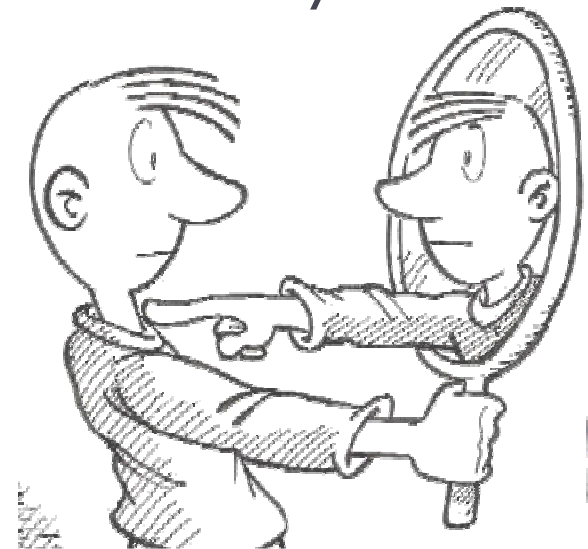
► Is it balanced?

- Is it fair to all parties concerned both in the short-term as well as the long-term?
- Is this a win-win situation for those directly as well as indirectly involved?

Having an ethical dilemma?

► Is it right?

- Most of us know the difference between right and wrong, but when push comes to shove, how does this decision make you feel about yourself?
- Are you proud of yourself for making this decision?
- Would you like others to know you made the decision you did?



What is business ethics?

- ▶ **It usually isn't illegal to lie to customers, but it isn't good business.**
 - ▶ 'A book on business ethics? Well that won't take long to read!'
 - ▶ 'You're taking a course on business ethics? So what do you do in the afternoon?'
 - ▶ 'Business ethics? I didn't think there were any!'

Is business ethics an oxymoron?

- ▶ By an oxymoron, we mean the bringing together of two apparently contradictory concepts.
- ▶ To say that business ethics is an oxymoron suggests that **there are not, or cannot be, ethics in business:**
 - ▶ that business is in some way unethical (i.e. that business is inherently bad)
 - ▶ or that it is, at best, amoral (i.e. outside of our normal moral considerations).

It is not surprising...

- ▶ **Various scandals concerning undesirable business activities:**
 - ▶ the polluting of rivers with industrial chemicals
 - ▶ the exploitation of sweatshop workers
 - ▶ the payment of bribes to government officials
 - ▶ the deception of unwary consumers
- ▶ have highlighted the unethical way in which some firms have gone about their business.

Business ethics

- ▶ **Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.**
- ▶ It is worth stressing that by 'right' and 'wrong' we mean morally right and wrong, as opposed to, for example, commercially, strategically, or financially right or wrong.

Business ethics and the law

- ▶ **The law might be said to be a definition of the minimum acceptable standards of behavior.**
- ▶ However, many morally contestable issues, whether in business or elsewhere, are not explicitly covered by the law.
- ▶ In one sense then, business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong.

Business ethics and the law

- ▶ Discussion about the ethics of particular business practices may eventually lead to legislation once some kind of consensus is reached, but for most of the issues of interest to business ethics, the law typically does not currently provide us with guidance.
- ▶ For this reason, it is often said that **business ethics is about the ‘grey areas’ of business, or where ‘values are in conflict’**.

Factors that affect business ethics

- ▶ Ethical codes that govern businesses often address certain main **areas**:
 - ▶ Honesty
 - ▶ Objectivity
 - ▶ Integrity
 - ▶ Carefulness
 - ▶ Openness
 - ▶ Respect for intellectual property
 - ▶ Confidentiality
 - ▶ Responsible publication
 - ▶ Responsible mentoring
 - ▶ Respect for colleagues
 - ▶ Social responsibility
 - ▶ Non-discrimination
 - ▶ Competence
 - ▶ Legality
 - ▶ Human subjects protection

Questions to ensure ethical behavior

- ▶ Ask yourself these **6 questions**:
 - ▶ 1. Do I have sufficient **information** to make an informed decision?
 - ▶ 2. Have we **anticipated** the consequences of our decision?
 - ▶ 3. How does the decision **affect** other people?
 - ▶ 4. Is the decision **fair** to all parties involved?
 - ▶ 5. Is everyone affected either **informed** or a part of the decision?
 - ▶ 6. If this was someone else's action, would I **appreciate** how it would affect me?

Why bother with ethics?

- ▶ **There is little evidence that ethical behavior increases profits or that unethical behavior decreases profits...**
 - ▶ Society as a whole benefits by encouraging economic competition; **no one wants to compete with unfair competitors.**
 - ▶ **People feel better when they behave ethically.**
 - ▶ **Unethical behavior can be costly**, if there is public outrage leading to a boycott.

Ethical consciousness

- ▶ Stage I: Jungle law
- ▶ Stage II: Anything for profit
- ▶ Stage III: Profit maximization in the short term
- ▶ Stage IV: Profit maximization in the long term
- ▶ **Stage V: Stakeholder concept**
- ▶ **Stage VI: Corporate citizenship**

Stakeholders

- ▶ **People or groups that have an interest in the organization:**
 - ▶ Stakeholders include employees, customers, suppliers and others.
 - ▶ Stakeholders often want different outcomes and managers must work to satisfy as many as possible.
- ▶ Managers often must choose between the conflicting interest of stakeholders.
- ▶ Ethics guide people in dealings with stakeholders and others, to determine appropriate actions.

Corporate social responsibility

- ▶ An obligation, beyond that required by the law and economics, for a firm **to pursue long term goals that are good for society.**
- ▶ The continuing commitment by business to behave ethically and contribute to economic development **while improving the quality of life of the workforce and their families as well as that of the local community and society at large.**
- ▶ About how a company manages its business process **to produce an overall positive impact on society.**

Corporate social responsibility

- ▶ In October 2011 the European Commission published a new policy on corporate social responsibility:
 - ▶ It states that to fully meet their social responsibility, enterprises ***“should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders”***.
 - ▶ The aim is both to enhance positive impacts – for example through the innovation of new products and services that are beneficial to society and enterprises themselves – and to minimise and prevent negative impacts.

Is CSR the same as business ethics?

- ▶ There is clearly an **overlap** between CSR and business ethics.
 - ▶ Both concepts concern values, objectives and decision based on something than the pursuit of profits.
 - ▶ And socially responsible firms must act ethically.
- ▶ The **difference** is that ethics concern individual actions which can be assessed as right or wrong by reference to moral principles.
 - ▶ CSR is about the organisation's obligations to all stakeholders.

Dimensions of CR

- ▶ **Economic** - responsibility to earn profit for owners
- ▶ **Legal** - responsibility to comply with the law (society's codification of right and wrong)
- ▶ **Ethical** - not acting just for profit but doing what is right, just and fair
- ▶ **Voluntary and philanthropic** - promoting human welfare and goodwill
- ▶ **Being a good corporate citizen contributing to the community and the quality of life**