

## Professional Ethics

**Business school students may need ethics training more than most**, because research has shown they have ranked lower in moral reasoning than students in philosophy, political science, law, medicine, and dentistry. Also, undergraduate business students and those aiming for a business career were found to be more likely to engage in academic cheating (test cheating, plagiarism, etc.) than were students in other majors or those headed toward other careers.

**At a minimum, professional ethics education can direct attention to the ambiguities and ethical gray areas that are easily overlooked without it.**

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*"Before, [when] I looked at a problem in the business world, I never consciously examined the ethical issues in play. It was always subconscious and I hope that I somewhat got it. But that [ethics] was never even a consideration. But now, when I look at a problem, I have to look at the impact. I'm going to put in this new ten-million-dollar project. What's going to be the impact on the people that live in the area and the environment. . . . It's opened my mind up on those things. It's also made me more aware of situations where I might be walking down the wrong path and getting in deeper and deeper, to where I can't pull back"*

In 2004, Harvard's MBA class of 1979 met for its 25-year reunion. The alumni

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**In 2004, Harvard's MBA class of 1979 met for its 25-year reunion.** The alumni gave the dean a standing ovation (great reception) when he stated that a new required course on values and leadership was his highest priority and then pledged (Vow, oath, promise and guarantee) to "live my life and lead the school in a way that will earn your trust." It should be clear from the above arguments that ethics can indeed be taught.

**Ethical behavior relies on more than good character.** Although a good upbringing may provide a kind of moral compass that can help the individual determine the right direction and then follow through on a decision to do the right thing, it's certainly not the only factor determining ethical conduct.

**In today's highly complex organizations, individuals need additional guidance.**

They can be trained to recognize the **ethical dilemmas** that are likely to arise in their jobs; **the rules, laws, and norms** that apply in that context; **reasoning strategies** that can be used to arrive at the best ethical decision; and the **complexities of organizational life** that can **conflict with one's desire** to do the right thing.

For example, businesses that do defense-related work are expected to comply with a multitude of laws and regulations that go far beyond what the average person can be expected to know.

We believe that **employers have a real responsibility** to teach employees what **they need to know to recognize and deal with ethical issues** they are likely to face at work. Failing to help employees recognize the risks in their jobs is like failing to teach **a machinist how to operate a machine safely**. Both situations can result in harm, and that's just **poor management**.

Similarly, we believe that, as business educators, we have a responsibility to **prepare you for the complex ethical issues** you're going to face and to **help you think about** what you can do to lead others in an ethical direction.

## Ethics...

Ethics can be defined as "**a set of moral principles or values**"— a definition that portrays ethics as **highly personal and relative**. I have my moral principles, you have yours, and neither of us should try to impose our ethics on the other.

But our definition of ethics —"**the principles, norms, and standards of conduct governing an individual or group**"— **focuses on conduct**.

We expect employers to establish guidelines for work-related conduct, including such basic matters as what time to arrive and leave the workplace, whether smoking is allowed on the premises, how customers are to be treated, and how quickly work should be done. Guidelines about ethical conduct aren't much different.

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The terms **morals, principles, values and ethics** are often used interchangeably and you will find this is true in companies.

**Morals** refer to a person’s personal philosophies about what is right or wrong. The important point is that when one speaks of morals, it is personal or singular. Morals, your philosophies or sets of values of right and wrong, relate to you and you alone. **You may use your personal moral convictions in making ethical decisions in any context.**

**Business or Professional ethics** comprises organizational principles, values, and norms that may originate from individuals, organizational statements, or from the **legal system** that primarily **guide individual and group behavior** in business or **any profession**.

**Principles** are **specific and pervasive boundaries** for behavior that should not be violated. Principles often become the basis for rules. Some examples of principles could include **human rights, freedom of speech**, and fundamentals of justice.

**Values** are enduring beliefs and ideals that are **socially enforced**. Several desirable or ethical values for business today are teamwork, trust, and integrity. Such values are often based on organizational or industry best practices.

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Many employers spend a lot of time and money **developing policies for employee activities** that range from how to fill out expense reports to what kinds of client gifts are acceptable to what constitutes a conflict of interest or bribe.

If we focus on conduct, **ethics becomes an extension of good management**.

Ethical decisions are a part of everyday life for those who work in organizations.

Ethics is a part of decision making at all levels of work and management.

**Leaders identify appropriate and inappropriate conduct, and they communicate their expectations to employees through ethics codes, training programs and other communication channels.**

However, an employee may find the organization's standards **inconsistent with his or her own moral values or principles.**

**Example:** A highly devoted environmentalist may believe that his or her organization should go beyond the minimum standards of environmental law when making decisions about how much to spend on new technology or on environmental cleanup efforts. These individuals may be able to influence their employers' policies. Otherwise, the person's only recourse may be to leave the organization for one that is a better values match.]

**Our ethical conduct is influenced and to a large degree controlled by our environment.**

In work settings, **leaders, managers, and the entire cultural context** are an important source of this influence and guidance. If, as managers, we allow employees to drift along without our guidance, we're unintentionally allowing them to be "controlled" by others. If this happens, we're contributing to the creation of "loose cannons" who can put the entire organization at risk. Guidance regarding ethical conduct is an important aspect of controlling employee behavior.

creation of “loose cannons” who can put the entire organization at risk. Guidance regarding ethical conduct is an important aspect of controlling employee behavior. It can provide essential information about organizational rules and policies, and it can provide explanations and examples of behavior that is considered appropriate or inappropriate in a variety of situations.

B. F. Skinner, the renowned psychologist, argued that it’s all right, even preferable, to intentionally control behavior. **He believed that all behavior is controlled, either intentionally or unintentionally.** Therefore what was needed was more intentional control, not less. Similarly, ethical and unethical behavior in organizations is already being controlled **explicitly or implicitly by the existing organizational culture.** Thus, organizations that neglect to teach their members “ethical” behavior may be **tacitly encouraging “unethical behavior”** through benign neglect. It’s management’s responsibility to provide **explicit guidance through direct management and through the organization’s culture.** The

The supervisor who attempts to influence the ethical behavior of subordinates should be viewed **not as a meddler but as a part of the natural management process.**

**To summarize**, we believe that **educational institutions and work organizations should teach people about ethics and guide them in an ethical direction**. Adults are open to and generally welcome this type of guidance.

**Ethical problems are not caused entirely by bad apples. They're also the product of bad barrels** — work environments that either encourage unethical behavior or merely allow it to occur. Making ethical decisions in today's complex organizations isn't easy. Good intentions and a good upbringing aren't enough. The special knowledge and skill are required to make good ethical decisions in a particular job and organizational setting may be different from what's needed to resolve personal ethical dilemmas and this knowledge and skill must be taught and

resolve personal ethical dilemmas and this knowledge and skill must be taught and cultivated.

“I am not a philosopher and I am not here to talk about philosophy. **Ethics is about conduct.**”

Managers need to understand why people behave the way they do so that they can influence this behavior. Most managers want the people they work with to be productive, to produce high-quality products, to treat customers well and to do all of this in a highly **ethical manner**.

We define **ethical behavior** in business or in any profession as “behavior that is consistent with the principles, norms, and standards of business or professional practice that have been agreed upon by society.”

Many of the standards have been **codified into law**. Others can be found in **company** and **industry codes of conduct** and international trade agreements.

We treat the decisions of people in work organizations as being influenced by **characteristics** of both **individuals** and **organizations**.

### CHARACTERISTICS OF INDIVIDUALS

Individual differences  
Cognitive biases



### *Process of Individual Ethical Decision Making*

ETHICAL AWARENESS → ETHICAL JUDGMENT → ETHICAL BEHAVIOR



### CHARACTERISTICS OF ORGANIZATIONS

Group and organizational pressures  
Organizational culture

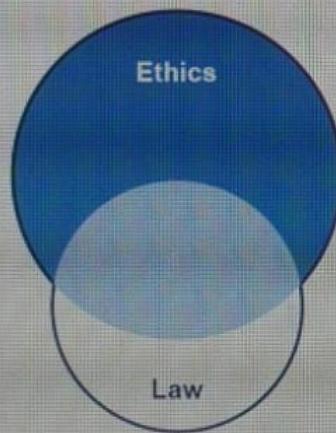
The Ethical Decision-Making Process

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## ETHICS AND THE LAW

It's important to think about the relationship between the law and business ethics, because if one could just follow the law, a business ethics book wouldn't be necessary. Perhaps the easiest way to visualize the relationship between business ethics and the law is in terms of a Venn diagram. If we think of the law as reflecting society's minimum norms and standards of business conduct, we can see a great deal of overlap between what's legal and what's ethical.



Relationship between Ethics and Law

Therefore, most people believe that law-abiding behavior is also ethical behavior. However, many standards of conduct are agreed upon by society and not codified in law.

For example, some conflicts of interest may be legal but are generally considered unethical in our society and are commonly prohibited in codes of ethics.

For example, having an affair with someone who reports to you may be legal but it is considered unethical in most corporate contexts.

It was found that much of the behavior leading to the 2008 financial crisis was legal, but unethical. So the domain of ethics includes the law but extends well beyond it to include ethical standards and issues that the law does not address.

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For example, racial discrimination was legal in the United States for a long time. But racial discrimination was and is highly unethical. Similarly, many companies do business in developing countries with few, if any, laws regulating environmental pollution or labor conditions. They can “legally” pollute the air and water in these countries. Such companies have to choose between adhering to ethical standards that are higher than the legal standards in those countries and deciding that it’s okay to harm the well-being of the people and communities there. The legal and ethical domains certainly overlap but the overlap is far from complete.

## ETHICS AND TRUST

A more elusive benefit of ethics is trust. Although it's difficult to document, trust has both economic and moral value.

Scientists are beginning to understand the "biology of trust." In trusting relationships, **neuroscientists have found that the brain releases a hormone, oxytocin that makes cooperating feel good.**

Trust is essential in a service economy where all a firm has is its reputation for dependability and good service.

Individuals and organizations build trust accounts that work something like a bank account. Having a trust reserve allows the individual or organization the flexibility and freedom to act without scrutiny, thus saving a great deal of time and energy in all types of relationships.

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Think of a marriage that is based on trust. The same is true for trust-based business relationships where a handshake seals a deal and a business partner's word is considered to be a contract. Corporations also build trust with their customers

**Example:** **Johnson & Johnson** made a huge contribution to its trust account when it recalled all Tylenol from store shelves after the poisoning crisis in 1982. Despite no recall requirement and huge recall costs, the company put its customers first.

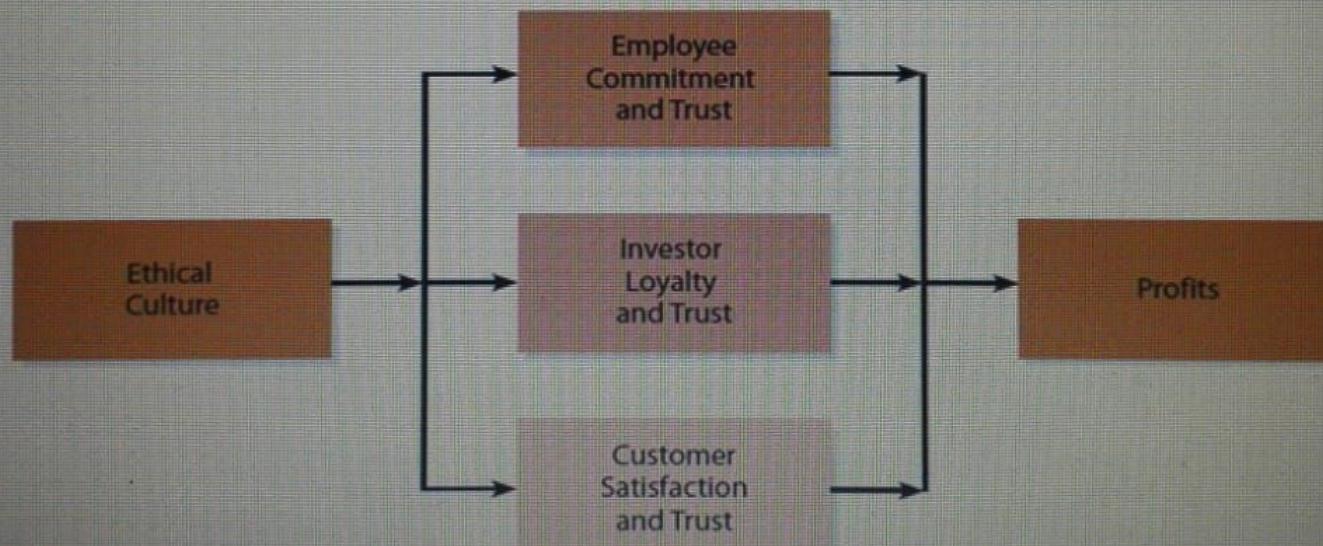
Trust encourages the open exchange of ideas and information, reduces the need for costly controls, allows for rapid adjustment to change and is associated with willingness to work through cultural differences and difficulties.

Trust accounts are easily overdrawn.

Recent corporate ethics scandals have created a huge gap in the public's trust. The entire business system relies on the public's faith and trust. That trust has been shattered in a manner that could be extremely costly to society.

Blue-chip companies now face even closer scrutiny and the skepticism of shareholders as they are being asked to open their books and reveal much more information than has been recent practice.

The ethical culture of a company matters to employees. According to a report on employee loyalty and work practices, companies viewed as highly ethical by their employees were six times more likely to keep their workers.



Example: **Granite Construction** earned a place in *Ethisphere's* "World's Most Ethical Companies" for four consecutive years as a result of its integration of ethics into the company culture.

Granite formulated its ethics program to comply with the Federal Sentencing Guidelines for Organizations and helped inspire the Construction Industry Ethics and Compliance Initiative. To ensure all company employees are familiar with Granite's high ethical standards, the firm holds six mandatory training sessions annually, conducts ethics and compliance audits, and uses field compliance officers to make certain ethical conduct is taking place throughout the entire organization.

Among the rewards for being more ethical and socially responsible in business are increased efficiency in daily operations, greater employee commitment, increased investor willingness to entrust funds, improved customer trust and satisfaction, and better financial performance. The reputation of a company has a major effect on its relationships with employees, investors, customers, and many other parties.

## Individual/Personal Moral Philosophies

People often use their individual moral philosophies to justify decisions or explain their actions. To understand how people make ethical decisions, it is useful to have a grasp of the major types of moral philosophies.

Moral philosophy on the other hand, refers to the specific principles or values people use to decide what is right and wrong. It is important to understand the distinction between moral philosophies and business ethics. Moral philosophies are person-specific, while business ethics is based on decisions made by groups or when carrying out tasks to meet business objectives.

A moral philosophy is a person's principles and values. In the context of business, ethics refers to what the group, firm, or organization defines as right or wrong actions that pertain to its business operations and the objective of profits, earnings per share, or some other financial measure of success.

Moral philosophies present guidelines for determining how conflicts in human interests are to be settled and for optimizing mutual benefit of people living together in groups.

together in groups.

People facing ethical issues often base their decisions on their own values and principles of right or wrong, most of which they learned through the socialization process with the help of family members, social groups, religions, and formal education.

Individual factors that influence decision making include personal moral philosophies. However, there is no single moral philosophy everyone accepts. Moral philosophies are often used to defend a particular type of economic system and individuals' behavior within these systems.

**Ethical dilemmas** arise in problem-solving situations when the rules governing decision making are vague or in conflict.

Many theories associated with moral philosophies refer to a value orientation and concepts such as economics, idealism, and relativism. The concept of the **economic value orientation** is associated with values quantified by monetary means; according to this theory, if an act produces more value for its effort then it should be accepted as ethical.

**Idealism** on the other hand, is a moral philosophy that places special value on ideas and ideals as products of the mind. The term refers to the efforts required to account for all objects in nature and experience and to assign to them a higher order of existence. Studies uncovered a positive correlation between idealistic thinking and ethical decision making.

**Realism** is the view that an external world exists independent of our perceptions. Realists assume humankind is not naturally benevolent and kind, but instead inherently self centered and competitive. According to realists, each person is ultimately guided by his or her own self-interest. Research shows a negative correlation between realistic thinking and ethical decision making. The belief that all actions are ultimately self-motivated seems to lead to a tendency toward unethical decision making.

**There are many moral philosophies.** We will limit our discussion to those that are most applicable to the study of business or professional ethics.

Our approach focuses on the most basic concepts needed to help you understand the ethical decision-making process in business profession. We do not prescribe the use of any particular moral philosophy, for there is no one correct way to resolve ethical issues in business.

A discussion of moral value often revolves around the nature of goodness but theories of moral obligation change the question to “What makes an action right or obligatory?”

**Goodness theories** typically focus on the *end result* of actions and the goodness or happiness created by them.

**Obligation theories** emphasize the *means* and *motives* by which actions are justified and are divided into the categories of teleology and deontology.

### Teleology

**Teleology** (from the Greek word for “end” or “purpose”) refers to moral philosophies in which an act is considered morally right or acceptable if it produces some desired result, such as pleasure, knowledge, career growth, the realization of self-interest, utility, wealth, or even fame.

Teleological philosophies assess the moral worth of a behavior by looking at its consequences. Thus moral philosophers today often refer to these theories as **consequentialism**.

Two important teleological philosophies that often guide decision making in individual business or professional decisions are **egoism** and **utilitarianism**.

### Egoism

**Egoism** defines right or acceptable behavior in terms of its consequences for the individual. Egoists believe they should make decisions that maximize their own self-interest, which is defined differently by each individual.

Depending on the egoist, self-interest may be construed as physical well-being, power, pleasure, fame, a satisfying career, a good family life, wealth, or something else. In an ethical decision-making situation, an egoist will probably choose the alternative that contributes most to his or her self-interest.

There also is **enlightened egoism**. Enlightened egoists take a long-range perspective and allow for the well-being of others although their own self-interest remains paramount.

**Enlightened egoists** may abide by professional codes of ethics, control pollution, avoid cheating on taxes, help create jobs, and support community projects **not** because these actions benefit others but because they help achieve some ultimate individual goal, such as advancement within their firms.

An enlightened egoist could become a **whistle blower** and report misconduct to a regulatory agency to receive a reward for exposing misconduct.

### Utilitarianism

**Utilitarianism** is concerned with consequences, but unlike the egoist, the utilitarian seeks the **greatest good for the greatest number of people**.

Utilitarian believe they should make decisions that result in the **greatest total utility** or the **greatest benefit for all those affected by a decision**.

Utilitarian decision making relies on a systematic comparison of **the costs and benefits to all affected parties**.

Using such a cost-benefit analysis, a utilitarian decision maker calculates the utility of the consequences of all possible alternatives and then selects the one that results in the greatest benefit.

Utilitarians use various criteria to evaluate the morality of an action. Some utilitarian philosophers argue that general rules should be followed to decide which action is best.

Rule utilitarians determine behavior on the basis of principles or rules designed to promote the greatest utility, rather than on individual examinations of each situation they encounter.

Other utilitarian philosophers have argued that the rightness of each individual action must be evaluated to determine whether it produces the greatest utility for the greatest number of people.

Act utilitarians examine specific actions rather than the general rules governing them, to assess whether they will result in the greatest utility.

For example, sales managers might believe their firm will not win a construction contract unless a local government official gets a bribe, and if the firm does not obtain the contract, it will have to lay off 100 workers. The manager might therefore argue that bribery is justified because saving 100 jobs creates more utility than obeying a law.

### Deontology

Deontology (from the Greek word for “ethics”) refers to moral philosophies that focus on the rights of individuals and the intentions associated with a particular behavior rather than its consequences. Fundamental to deontological theory is the idea that equal respect must be given to all persons.

In short, teleological philosophies consider the ends associated with an action, whereas deontological philosophies consider the means.

behaviors. Conversely, intensely moral individuals can be corrupted by an organizational structure and culture that permits or encourages unethical practices. Let's look more closely at these factors.

**STAGE OF MORAL DEVELOPMENT.** Research divides moral development into three levels, each having two stages.<sup>32</sup> At each successive stage, an individual's moral judgment becomes less dependent on outside influences and more internalized.

At the first level, the *preconventional* level, a person's choice between right or wrong is based on personal consequences from outside sources, such as physical punishment, reward, or exchange of favors. At the second level, the *conventional* level, ethical decisions rely on maintaining expected standards and living up to the expectations of others. At the *principled* level, individuals define moral values apart from the authority of the groups to which they belong or society in general. The three levels and six stages are described in Exhibit 5-4.

Level	Description of Stage
Principled	6. Following self-chosen ethical principles even if they violate the law 5. Valuing rights of others and upholding absolute values and rights regardless of the majority's opinion
Conventional	4. Maintaining conventional order by fulfilling obligations to which you have agreed 3. Living up to what is expected by people close to you
Preconventional	2. Following rules only when doing so is in your immediate interest 1. Sticking to rules to avoid physical punishment

What can we conclude about moral development?<sup>33</sup> First, people proceed through the six stages sequentially. Second, there is no guarantee of continued moral development. Third, the majority of adults are at Stage 4: They're limited to obeying the rules and will be inclined to behave ethically, although for different reasons. A manager at stage 3 is likely to make decisions based on peer approval; a manager at stage 4 will try to be a "good corporate citizen" by making decisions that respect the organization's rules and procedures; and a stage 5 manager is likely to challenge organizational practices that he or she believes to be wrong.