

Business Law

Text & Exercises *6th Ed.*

Roger LeRoy Miller
William Eric Hollowell



Chapter 2: Ethics

Learning Outcomes

- LO1** • Define business ethics and its relationship to personal ethics.
- LO2** • State how businesspersons can deter unethical behavior.
- LO3** • Explain the relationship between law and ethics.

Learning Outcomes

- LO4** • Compare and contrast duty-based ethics and utilitarian ethics.
- LO5** • Identify examples of ethical problems in the global context.

- **Ethics is the study of right and wrong behavior; whether an action is fair, right or just.**
- **In business, ethical decisions are the *application* of moral and ethical principles to the marketplace and workplace.**

Why is Business Ethics Important?

- **Directors and Officers owe a complex set of ethical duties to the company, shareholders, customers, community, employees, and suppliers.**
- **When these duties conflict, ethical dilemmas are created.**

Importance of Ethical Leadership

- **Attitude of Top Management.**
 - Management must be committed to creating an ethical company.
 - Management must set realistic goals for production.
 - Management must deal with unethical issues quickly

Ethical Codes and Compliance

- **Codes Must be Well-Written.**
- **Corporate Compliance Programs:**
 - Companies Should Provide Ethics Training to Employees.
 - Sarbanes-Oxley Act and Web-Based Reporting: requires confidential ethics reporting systems to “raise red flags” about practices.
- **Conflicts and Trade-Offs.**

LO2

Ethical Transgressions by Financial Institutions

- **Corporate Stock Buybacks.**
 - Many of the greatest financial institutions have gone bankrupt, taken over by the federal government, or bailed out by U.S. taxpayers.
 - Buyback: management believes stock value is “below fair value.” Instead of issuing dividends, it buys its own shares on the open market, boosting the price of the stock.
 - Executives benefit because the value of their stock options goes up.

Ethical Transgressions by Financial Institutions

- **Executive Bonuses.**
 - Bonuses and Salaries before the Crisis. Lehman Brothers.
 - Some Bonuses Were Paid Early.
 - Congress Acts to Limit Bonuses in the Troubles Asset Relief Program, and American Recovery and Reinvestment Tax Act of 2009.

Sarbanes-Oxley Act of 2002

- **Attempts to increase corporate responsibility by:**
 - Stricter disclosure requirements.
 - Harsher penalties for legal violations.
 - Corporate officers take responsibility for financial statements and SEC reports.
 - CEO's and CFO's must personally certify reports.

Sarbanes-Oxley Act of 2002

- **Oversight by Public Company Accounting Oversight Board.**
 - Accountability to Public Accounting Firms.
 - Requirements for Maintaining Working Papers: must maintain for five years after audit.
- **Protections for Whistleblowers.**
- **Enhanced Penalties.**

- **Moral Minimum:** minimum standard for ethical business behavior really means bare compliance with the law.
- **“Gray Areas” in the Law:** when the law is “silent” on an actions legality.
 - In addition, courts decide on a case by case basis, looking for “reasonable” acts or “foreseeable” results.

Approaches to Ethical Reasoning

- **Duty Based Ethics - derived from religious and philosophical principles.**
 - Religion→
 - Kantian Ethics→
 - Rights Principles→
- **Outcome-Based Ethics - seek to ensure a given outcome.**
 - Utilitarianism.

Duty-Based: Religion

- **The rightness or wrongness of an action is usually judged according to its conformity to an absolute rule that commands a particular form of behavior.**
- **The motive of the actor is irrelevant in judging the rightness or the wrongness of the action.**
- **These rules often involve an element of compassion.**

Duty-Based: Kantian Ethics

- **Premised on the belief that general guiding principles for moral behavior can be derived from human nature.**
- **The categorical imperative is a central postulate of Kantian ethics.**
 - The rightness or wrongness of an action is judged by estimating the consequences that would follow if everyone in a society performed the act under consideration.

Duty-Based: Principle of Rights

- **This principle derives from the belief that every duty gives rise to a corresponding right.**
- **The belief in fundamental rights is a deeply embedded feature of Western culture.**
- **The ethicality of an action is judged by how the consequences of the action will affect the rights of others.**

Outcome-Based Ethics: Utilitarianism

- **An action is ethical based on what produces the greatest good for the greatest number of people.**
 - Cost-benefit analysis is performed to determine the effects of competing alternatives on the persons affected.
- **The best alternative is the one that produces the greatest good for the greatest number.**

Corporate Social Responsibility

- **Corporations should be interested in impact on civil rights, environment, consumer protection, employee safety and welfare.**
 - Stakeholder Approach.
 - Corporate Citizenship.
- **Employee Recruiting and Retention Advantage.**

- **American companies must be trained in cross-cultural business practices.**
- **Monitoring the employment practices of foreign suppliers.**
 - Corporate Watch groups can disseminate information instantly around world.
- **Foreign Corrupt Practices Act.**
 - Bribes and Accounting Practices.