Ethics, Corporate Responsibility, and Sustainability

5.1 Ethics and Business Ethics Defined

Ethics essentially involves how we act, live, lead our lives, and treat others. Our choices and decision-making processes and our moral principles and values that govern our behaviors regarding what is right and wrong are also part of ethics.

Normative ethics refers to the field of ethics concerned with our asking how should and ought we live and act

Business ethics is applied ethics that focuses on real-world situations and the context and environment in which transactions occur—How should we apply our values to the way we conduct business

5.2 Dimensions of Ethics: The Individual Level

Ethics is personal and unique to each individual. Ethical decision-making also involves other individuals, groups, organizations, and even nations—stakeholders and stockholders—as we later explain.

Kenneth Goodpaster and Laura Nash characterized at least three dimensions or levels of ethics that help explain how individual and group values, norms, and behaviors of different stakeholders interact and respond with the aim of bringing orderly, fair, and just relationships with one another in transactions.
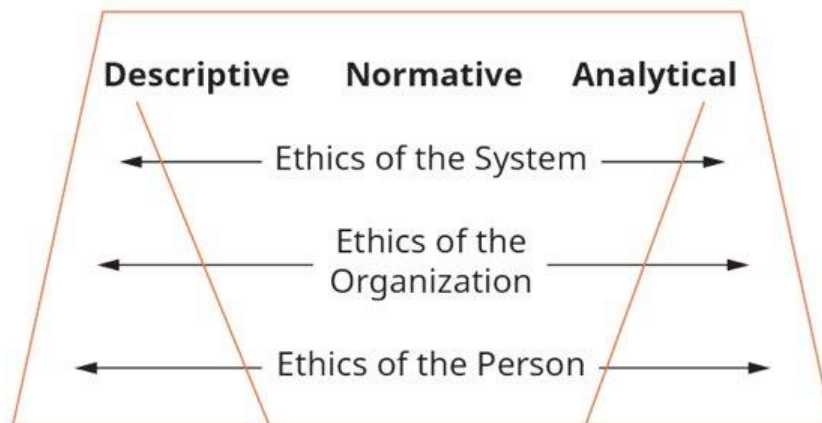
Ethical principles generally are codified into laws and regulations when there is societal consensus about such wrongdoing, such as laws against drunk driving, robbery, and murder. These laws, and sometimes unwritten societal norms and values, shape the local environment within which individuals act and conduct business.

At the individual level, a person's values and beliefs are influenced by family, community, peers and friends, local and national culture, society, religious—or other types of—communities, and geographic environment.

In organizations, an individual's ethical stance may be affected by peers, subordinates, and supervisors, as well as by the organizational culture. Organizational culture often has a profound influence on individual choices and can support and encourage ethical actions or promote unethical and socially irresponsible behavior.

Ethics and Values: Terminal and Instrumental Values

At the Individual level, however, a reoccurring issue individuals seem to have with acting ethically is that many people do not consciously know or choose their values.
We often act first and think or rationalize later. Secondly and relatedly, the methods and ways we act to reach our goals and objectives are also not always deliberately chosen.
Consequently, many times we let the "ends justify the means" and/or "the means justify the ends" in our decisions and actions.

Ethical dilemmas (i.e., situations and predicaments in which there is not an optimal or desired choice to be made between two options, neither of which solves an issue or delivers an opportunity that is ethical) often originate and occur from an unawareness of how to sort out and think through potential consequences of our actions or inaction.

Terminal values are desired goals, objectives, or end states that individuals wish to pursue.

Instrumental values are the preferred means of behavior used to obtain those goals.

Examples of terminal values—
at a higher level—are freedom, security, pleasure, social recognition, friendship, accomplishment, comfort, adventure, equality, wisdom, and happiness.13 Examples of instrumental values are being helpful, honest, courageous, independent, polite, responsible, capable, ambitious, loving, self-contained, and forgiving.

If the end (terminal) value creates undue pressures and is unrealistic and unobtainable, then the means (instrumental) value would likely create tension and unethical behavior as well.

5.3 Ethical Principles and Responsible Decision-Making

Ethical principles are different from values in that the former are considered as rules that are more permanent, universal, and unchanging, whereas values are subjective, even personal, and can change with time. Principles help inform and influence values.

1. **Utilitarianism: A Consequentialist, "Ends Justifies Means" Approach**

The utilitarianism principle basically holds that an action is morally right if it produces the greatest good for the greatest number of people. An action is morally right if the net benefits over costs are greatest for all affected compared with the net benefits of all other possible choices.

Some limitations of this principle suggest that it does not consider individuals, and there is no agreement on the definition of "good for all concerned." In addition, it is difficult to measure "costs and benefits." This

is one of the most widely used principles by corporations, institutions, nations, and individuals, given the limitations that accompany it. Use of this principle generally applies when resources are scarce, there is a conflict in priorities, and no clear choice meets everyone's needs—that is, a zero-sum decision is imminent.

2. Universalism: A Duty-Based Approach

Universalism is a principle that considers the welfare and risks of all parties when considering policy decisions and outcomes. Also, the needs of individuals involved in a decision are identified as well as the choices they have and the information they need to protect their welfare.

This principle involves taking human beings, their needs, and their values seriously. It is not only a method to make a decision; it is a way of incorporating a humane consideration of and for individuals and groups when deciding a course of action. As some have asked, "What is a human life worth?"

"Universalism is the outward expression of leadership character and is made manifest by respectfulness for others, fairness, cooperativeness, compassion, spiritual respect, and humility."

Limitations here also show that using this principle may not always prove realistic or practical in all situations. In addition, using this principle can require sacrifice of human life—that is, giving one's life to help or save others—which may seem contrary to the principle.

3. Rights: A Moral and Legal Entitlement–Based Approach

This principle is grounded in both legal and moral rights.

Legal rights are entitlements that are limited to a particular legal system and jurisdiction.

Moral (and human) rights, on the other hand, are universal and based on norms in every society, for example, the right not to be enslaved and the right to work.

Some limitations when using this principle are

(1) it can be used to disguise and manipulate selfish and unjust political interests,

(2) it is difficult to determine who deserves what when both parties are "right," and

(3) individuals can exaggerate certain entitlements at the expense of others.

4. Justice: Procedures, Compensation, and Retribution

This principle has at least four major components that are based on the tenets that,

 (1) all individuals should be treated equally;

(2) justice is served when all persons have equal opportunities and advantages (through their positions and offices) to society's opportunities and burdens;

(3) fair decision practices, procedures, and agreements among parties should be practiced; and (4) punishment is served to someone who has inflicted harm on another, and compensation is given to those for a past harm or injustice committed against them.

Limitations when using this principle involve the question of who decides who is right and wrong and who has been harmed in complex situations. This is especially the case when facts are not available and there is no objective external jurisdiction of the state or federal government.

5. Virtue Ethics: Character-Based Virtues

Virtue ethics is based on character traits such as being truthful, practical wisdom, happiness, flourishing, and well-being. It focuses on the type of person we ought to be, not on specific actions that should be taken.

Grounded in good character, motives, and core values, the principle is best exemplified by those whose examples show the virtues to be emulated.

There are some limitations to this ethic. First, some individuals may disagree about who is virtuous in different situations and therefore would refuse to use that person's character as a principle.

6. The Common Good

The common good is defined as "the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment.

" Decision-makers must take into consideration the intent as well as the effects of their actions and decisions on the broader society and the common good of the many.

Identifying and basing decisions on the common good requires us to make goals and take actions that take others, beyond ourselves and our self-interest, into account.

A major limitation when using this principle is, "Who determines what the common good is in situations where two or more parties differ over whose interests are violated?"

## 7. Ethical Relativism: A Self-Interest Approach

Ethical relativism is really not a "principle" to be followed or modeled. It is an orientation that many use quite frequently. Ethical relativism holds that people set their own moral standards for judging their actions.

Only the individual's self-interest and values are relevant for judging his or her behavior. Moreover, moral standards, according to this principle, vary from one culture to another.

The obvious limitations of relativism include following one's blind spots or self-interests that can interfere with facts and reality.

5.4 Leadership: Ethics at the Organizational Level

Organizational leadership is an important first step toward identifying and enacting purpose and ethical values that are central to internal alignment, external market effectiveness, and responsibility toward stakeholders.
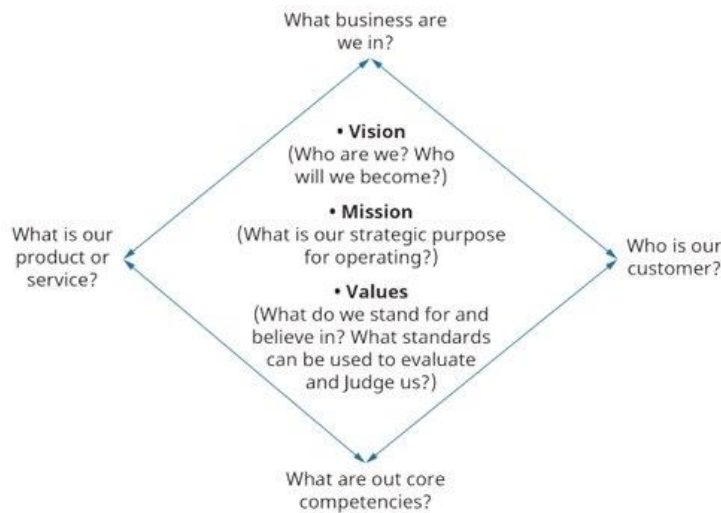
Leadership is defined as the ability to influence followers to achieve common goals through shared purposes.24 Organizational leaders are responsible to a wide range of stakeholders and stockholders as well as employees toward meeting the goals for the organization.

Show Respect for Others

Respecting others requires leaders to recognize the intrinsic worth of others and forces them to treat people as ends in themselves—never as means to an end. In other words, people should be seen as valuable because of who they are (a universal principle), not only because of what they can do for others or how they can help others advance.

Treat All Stakeholders Fairly

Ethical leaders strive to treat everyone their decisions may affect in a fair and just manner. Equality is also a top priority for ethical leaders and needs to factor prominently into their decision-making. Ethical leaders must refrain from offering special treatment to others.

Work Toward a Common Good

Ethical leaders strive to further social or institutional goals that are greater than the goals of the individual. This responsibility requires the ethical leader to serve a greater good by attending to the needs of others. This type of behavior is an example of altruism: a steadfast devotion to improving the welfare of others.

Build Community

When an ethical leader focuses on the needs of others rather than the self, other people will often follow suit. This can lead to a strong contingent of followers working with the leader to achieve a common goal that is compatible with the desires of all stakeholders. Furthering a common goal means that no one can place his needs ahead of the group's goals and an ethical leader cannot impose his will on others.

Be Honest

Honesty is considered desirable by practically everyone, but it is sometimes unclear what honesty actually demands of us. Being honest is not simply telling the truth and avoiding deceitful behaviors; it requires leaders to be as open as possible and to describe reality fully, accurately, and in sufficient detail. Telling the complete truth is not always the most desirable action, however. Leaders must be sensitive to the feelings and beliefs of others and must recognize that the appropriate level of openness and candor varies depending on the situation.

Stewardship and Servant Leadership Styles

Effective leaders, and followers, who lead by example and demonstrate virtuous practices while demonstrating successful practices are more numerous than the media or press reveal. Such examples are also entrepreneurs who practice both stewardship and servant leadership. Their names are not always recognizable nationally, but their companies, communities, and stakeholders know them well.

Stewardship is concerned with empowering followers to make decisions and gain control over their work.

Servant leadership involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare.

The stewardship approach instructs leaders to lead without dominating followers. Leaders who practice stewardship sincerely care about their followers and help them develop and accomplish individual as well as organizational goals. Effective stewardship breeds a team-oriented environment in which everyone works together.

Servant leadership goes beyond stewardship by requiring leaders to eschew personal accolades and devote themselves entirely to a greater cause.

The following aspects are central to servant leadership:
1.Placing service before self-interest. The servant leader's primary concern is helping others, not receiving recognition or financial reward.

2. Listening to others. Servant leaders recognize the importance of listening to the ideas and concerns of stakeholders; they never attempt to impose their will on others.

3. Inspiring through trust. As we discussed earlier, ethical leaders must be trustworthy. It does not take much effort for servant leaders to be truthful because they usually have strong moral convictions.

4. Working toward feasible goals. Servant leaders realize that many problems cannot be solved by one person. They also tackle the most pressing issues facing their groups.

5. Helping others whenever possible. Servant leaders lend a helping hand when the opportunity arises.

Dark Side of Organizational Leadership

1. **Ethical blindness**: They do not perceive ethical issues due to inattention or inability.

2. **Ethical muteness**: They do not have or use ethical language or principles. They "talk the talk" but do not "walk the talk" on values.

3. **Ethical incoherence**: They are not able to see inconsistencies among values they say they follow; e.g., they say they value responsibility but reward performance based only on numbers.

4. **Ethical paralysis**: They are unable to act on their values from lack of knowledge or fear of the consequences of their actions.

5. **Ethical hypocrisy**: They are not committed to their espoused values. They delegate things they are unwilling or unable to do themselves.

6. **Ethical schizophrenia**: They do not have a set of coherent values; they act one way at work and another way at home.

7. **Ethical complacency**: They believe they can do no wrong because of who they are. They believe they are immune.

5.5 Ethics, Corporate Culture, and Compliance

An organization's culture is defined by the shared values and meanings its members hold in common and that are articulated and practiced by an organization's leaders. Purpose, embodied in corporate culture, is embedded in and helps define organizations.

Ed Schein, one of the most influential experts on culture, also defined **organizational corporate culture** as "a pattern of shared tacit assumptions learned or developed by a group as it solves its problems of external adaptation and internal integration that have worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems."
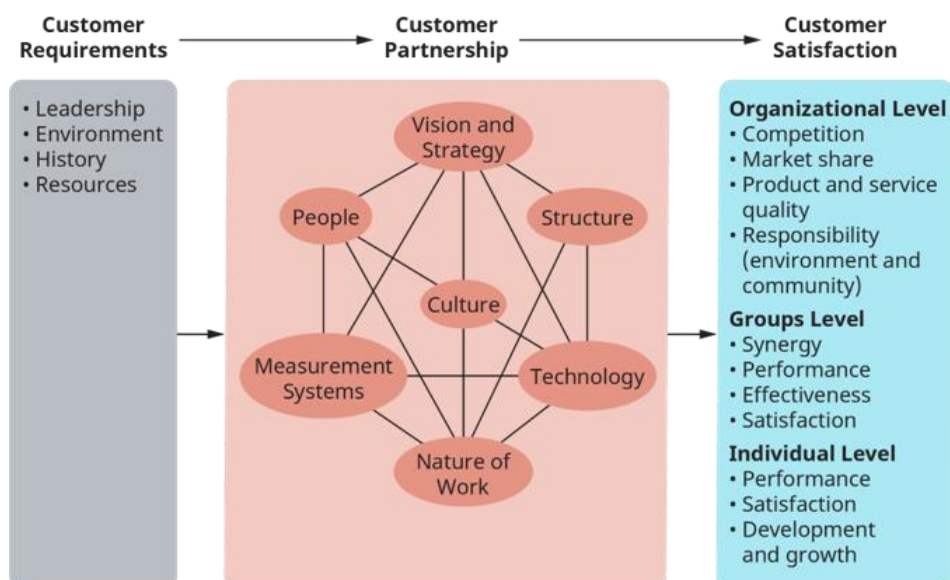
Culture is transmitted through and by

(1) the values and styles that leaders espouse and practice,

(2) the heroes and heroines that the company rewards and holds up as models,

(3) the rites and symbols that organizations value, and

(4) the way that organizational executives and members communicate among themselves and with their stakeholders

An organization models and communicates compliance standards through its values; employees are informed of and familiar with the assets and efforts of the compliance and ethics function.

• The culture sets "enduring and underlying assumptions and norms that determine how things are actually done in the organization.

• "Organizations can effectively identify specific locations, business units, job levels and job functions that may lack a full understanding of available resources, feel unwanted pressure, or perhaps hold negative perceptions."

• Companies and investors believe a company behaves and acts ethically.

• Employees are aware of the conduct, values, and communications of senior leaders.

• Employees are engaged and committed, and organizations regularly survey employees to get a sense of their engagement.

• Employees feel "less pressure to compromise company standards to achieve company goals. And if they do observe misconduct, they are more likely to feel comfortable reporting it."

• "Employees perceive the ethical priorities of their coworkers, the values of their organization and willingness to share opinions."

Compliance and Ethics

As the section above indicates, both a values-based and compliance approach are necessary elements of maintaining an ethical corporate culture.

Ethics has been characterized as "doing the right thing" and serving as a motivational force that influences professionals' values—resembling a "carrot" approach to professionals' behaviors.

Compliance is related to influencing behaviors to act in accordance to the law or face consequences—referred to as a "stick" approach. Studies show that ethical and compliance approaches are interrelated and work best to motivate and sustain lawful and ethical behavior in organizations.

5.6 Corporate Social Responsibility (CSR)

CSR contributes to another form of self-regulation that goes further and involves firms taking action to help people and the environment. CSR is described as "a belief that corporations have a social responsibility beyond pure profit."

"Firms are social entities, and so they should play a role in the social issues of the day. They should take seriously their 'obligations to society' and actively try to fulfill them."

As such, corporations should employ a decision-making process to achieve more than financial success on the assumption that CSR is integral to an optimum long-term strategy.

Stakeholder Management

CSR and stakeholder management are complementary approaches. Stakeholder theory argues that corporations should treat all their constituencies fairly and that doing so can strengthen companies' reputations, customer relations, and performance in the marketplace.

"If organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purposes."

The ethical dimension of stakeholder theory is based on the view that profit maximization is constrained by justice, that regard for individual rights should be extended to all constituencies who have a stake in a business, and that organizations are not only "economic" in nature but can also act in socially responsible ways.

A stakeholder is any group or individual who can affect or is affected by an organization's strategies, major transactions, and activities. Stakeholders include employees, suppliers, customers, shareholders, the government, media, and others.
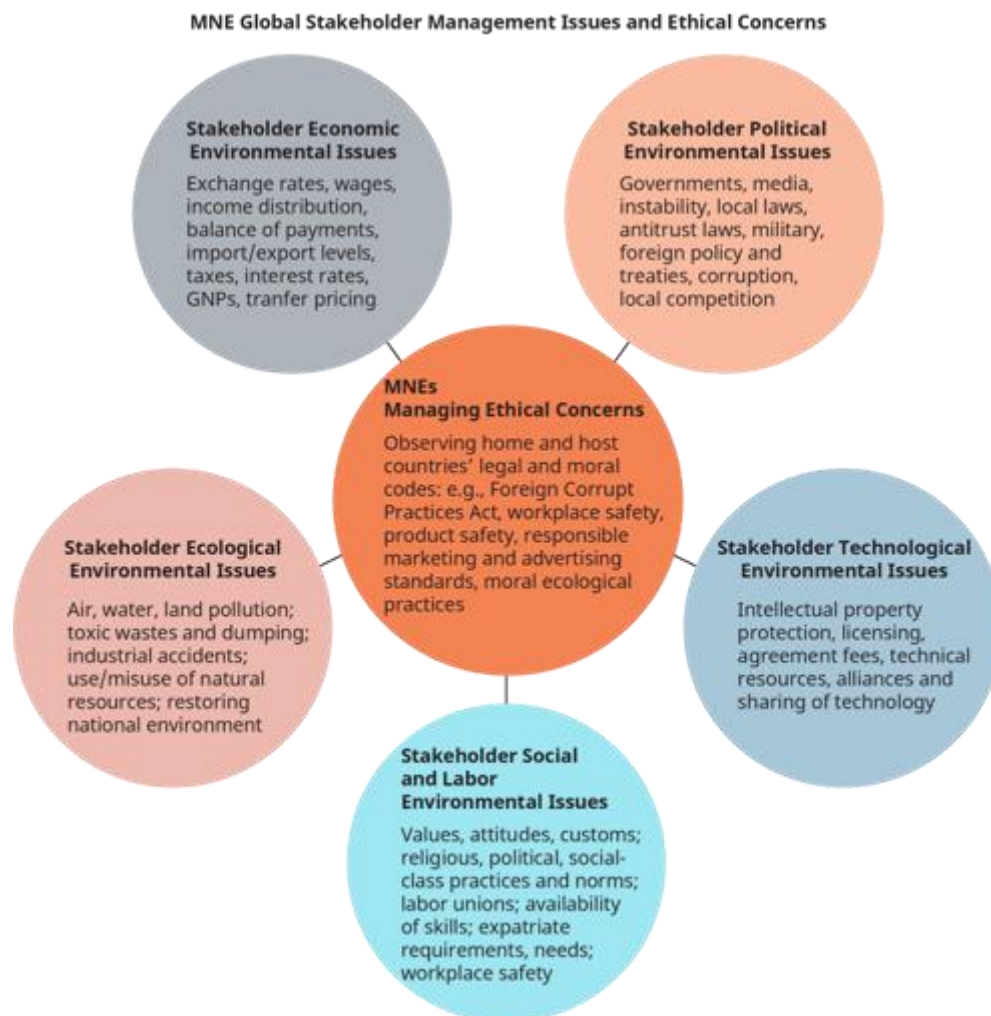
Stakeholder Map

5.7 Ethics around the Globe

Organizations operating on a global basis often face particularly tough ethical challenges because of various cultural, political, economic, technological, and market factors.

Recent and reoccurring global ethical problems and risks that organizations face include cybersecurity and political threats, international conflict and warfare, income inequality, planetary climate and environmental pollution and instability, corruption, and human and diversity rights violations.

MNE Global Stakeholder Management Issues and Ethical Concerns

Stakeholder Economic Environmental Issues
Exchange rates, wages, income distribution, balance of payments, import/export levels, taxes, interest rates, GNPs, tranfer pricing

Stakeholder Political Environmental Issues
Governments, media, instability, local laws, antitrust laws, military, foreign policy and treaties, corruption, local competition

MNEs Managing Ethical Concerns
Observing home and host countries' legal and moral codes: e.g., Foreign Corrupt Practices Act, workplace safety, product safety, responsible marketing and advertising standards, moral ecological practices

Stakeholder Ecological Environmental Issues
Air, water, land pollution; toxic wastes and dumping; industrial accidents; use/misuse of natural resources; restoring national environment

Stakeholder Technological Environmental Issues
Intellectual property protection, licensing, agreement fees, technical resources, alliances and sharing of technology

Stakeholder Social and Labor Environmental Issues
Values, attitudes, customs; religious, political, social-class practices and norms; labor unions; availability of skills; expatriate requirements, needs; workplace safety

Globalization

The increasing phenomenon of globalization (an integrated global economy consisting of free trade, capital flows, and cheaper foreign labor markets)70 also pressures global firms facing international risks to rely on governments, NGOs (non-governmental organizations), the UN (United Nations), and other business and stakeholder alliances and relationships to help meet nonmarket threats.

The ten principles of theUN Global Compact serve as guidelines for international firms doing business in LDCs (least developed countries), and abroad, businesses should

(1) support and respect the protection of internationally proclaimed human rights,

(2) ensure that they are not complicit in human rights abuses, (3) uphold the freedom of association and the effective recognition of the right to collective bargaining,

(4) eliminate of all forms of forced and compulsory labor,

(5) abolish child labor, (6) eliminate the discrimination of employment and occupation,

(7) support a precautionary approach to environmental challenges,

(8) promote greater environmental responsibility through initiatives,

(9) encourage the development and diffusion of environmentally friendly technologies, and

(10) work against corruption, including extortion and bribery.

MNEs Corporate Cultures

MNEs must also create inclusive, ethical corporate cultures while managing both external and internal complexities such as hiring and training a diverse workforce, adapting to local culture norms while balancing home country ethics and values, and ensuring a multicultural approach to doing business across countries.

5.8 Emerging Trends in Ethics, CSR, and Compliance

1. "A shift in the 'power of voice in the story of harassment.'" "Victims of harassment have the power of choice. They can make an internal report and hope that their organization responds properly, or they can choose to take their story public." A clear message for corporations and ethics and compliance officers is, "Create a corporate culture in which employees feel comfortable raising their voices about anything from sexual harassment to feelings of being insulted.

2. The "Glassdoor" effect (when people trust online reviews of their companies more than what companies communicate) and the effect of trust when employee messages go viral on social media.

3. Assisting national disasters that suddenly occur causes havoc not only for vulnerable populations but also for unprepared organizations. Ethics and compliance professionals learned from 2017's natural disasters (hurricanes in particular) to update preparation plans and test emergency hotlines, communications systems, and employee readiness.

4. The acceleration of the need for compliance and ethics programs as economies begin again to grow;

"growth without ethics and governance does nobody any favors. Growth with ethics and governance won't simply be a feel-good mantra in 2018, it will be a business imperative."

5. Creating a "culture of compliance" in corporations (a culture of integrity and ethics) over one of "vicious compliance" (an overreliance on laws and regulations). "Finally, and most importantly, leadership accountability is what every employee is watching. In the end, what happens to the top performers who

6. An increasing need for compliance's role in prevention and mitigation as cybersecurity evolves. "Compliance must play an integral part in any organization's cross-functional cyber security program to make sure such efforts are enterprise-wide."

7. Giving new voice to whistle-blowers is predicted as "regulatory scrutiny is increasing, and the voice of the whistleblower in the [Silicon] Valley is growing louder as well." Corporations need to listen and resolve whistle-blowers' issues internally before they decide to go outside.

8. Managing culture and free speech in the workplace during "polarizing times" continues about "race, gender, sex, sexual orientation, gender identity, national origin, and religion—and people's right to fair treatment, protection, and the rights and benefits enjoyed by others."

9. Data privacy is becoming a larger concern for chief compliance officers in companies as "privacy laws and the environments they regulate, have evolved." Creating a safe and respectful workplace is needed.

10. The role of the compliance professional evolves and innovates as "old networking models are giving way to online networks that provide new and unprecedented opportunities to share ideas and collaborate."

Moral Entrepreneur: A New Component of Ethical Leadership?

An innovative development in ethics and business is the concept of "moral entrepreneur."

Ethical leaders are models of ethical conduct who become the targets of identification and emulation for followers.

For leaders to be perceived as ethical leaders and to influence ethics-related outcomes, they must be perceived as attractive, credible, and legitimate. They do this by engaging in behavior that is seen as normatively appropriate (e.g., openness and honesty) and motivated by altruism (e.g., treating employees fairly and considerately).