

## **BBM 461: BUSINESS ETHICS AND VALUES**

### **TOPIC 1: INTRODUCTION TO BUSINESS ETHICS AND VALUES**

**Ethics** or **moral philosophy** is a branch of philosophy that involves systematizing, defending, and recommending concepts of **right and wrong conduct**. The field of ethics, concerns itself with matters of value.

Ethics seeks to resolve questions of human morality by defining concepts such as good and evil, right and wrong, virtue and vice, justice and crime. As a field of intellectual inquiry, moral philosophy also is related to the fields of moral psychology, descriptive ethics, and value theory.

#### ***DEFINITION***

Rushworth Kidder states that "standard definitions of *ethics* have typically included such phrases as 'the science of the ideal human character' or 'the science of moral duty'". Richard William Paul and Linda Elder define ethics as: "a set of concepts and principles that guide us in determining what behaviour helps or harms sentient creatures".

The *Cambridge Dictionary of Philosophy* states that the word "ethics" is "commonly used interchangeably with 'morality' ... and sometimes it is used more narrowly to mean the moral principles of a particular tradition, group or individual."

Ethics is a system of moral principles and a branch of philosophy which defines what is good for individuals and society. At its simplest, ethics is a system of moral principles. They affect how people make decisions and lead their lives. Ethics is concerned with what is good for individuals and society and is also described as moral philosophy.

The term is derived from the Greek word *ethos* which can mean custom, habit, character or disposition.

Ethics is moral principles that govern a person's behaviour or the conducting of an activity.

*synonyms:* moral code, morals, morality, moral stand, moral principles, moral values, rights and wrongs, principles, ideals, creed, credo, ethos, rules of conduct, standards (of behaviour), virtues, dictates of conscience

- the moral correctness of specified conduct. "many scientists question the ethics of cruel experiments"

Ethics is also the branch of knowledge that deals with moral principles.

Paul and Elder state that most people confuse ethics with behaving in accordance with social conventions, religious beliefs and the law and don't treat ethics as a stand-alone concept.

**Values** and **ethics** in simple words mean principle or code of conduct that govern transactions: in this case business transaction. These ethics are meant to analyze problems that come up in day to day course of business operations. Apart from this it also applies to individuals who work in organisations, their conduct and to the organizations as a whole.

We live in an era of cut throat competition and competition breeds enmity. This enmity reflects in business operations, code of conduct. Business houses with deeper pockets crush small operators and markets are monopolized. In such a scenario certain standards are required to govern how organizations go about their business operations, these standards are called ethics.

**Business ethics is the written and unwritten principles and values that govern decisions and actions within an organization. They are the standards of business behavior**

### **Origin of Business Ethics**

When we trace the origin of business ethics we start with a period where profit maximization was seen as the only purpose of existence for a business. There was no consideration whatsoever for non-economic values, be it the people who worked with organizations or the society that allowed the business to flourish. It was only in late 1980's and 1990's that both intelligentsia and the academics as well as the corporate began to show interest in the same.

Nowadays almost all organizations lay due emphasis on their responsibilities towards the society and the nature and they call it by different names like corporate social responsibility, corporate governance or social responsibility charter. Globally also many corporations have bred philanthropists who have contributed compassion, love for poor and unprivileged. Bill gates of Microsoft and Warren Buffet of Berkshire Hathaway are known for their philanthropic contributions across the globe.

Many organizations, for example, IBM as part of their corporate social responsibility have taken up the initiative of going green, towards contributing to environmental protection. It is not that business did not function before the advent of business ethics; but there is a regulation of kinds now that ensures business and organizations contribute to the society and its well being.

Nowadays business ethics determines the fundamental purpose of existence of a company in many organizations. There is an ensuing battle between various groups, for example between those who consider profit or share holder wealth maximization as the main aim of the company and those who consider value creation as main purpose of the organization.

The former argue that if an organizations main objective is to increase the shareholders wealth, then considering the rights or, interests of any other group is unethical. The latter, similarly argue that profit maximization cannot be at the expense of the environment and other groups in the society that contribute to the well being of the business.

Nevertheless business ethics continues to a debatable topic. Many argue that lots of organizations use it to seek competitive advantage and creating a fair image in the eyes of consumers and other stakeholders. There are advantages also like transparency and accountability.

### ***IMPORTANCE OF ETHICS***

Most of us would agree that it is ethics in practice that makes sense; just having it carefully drafted and redrafted in books may not serve the purpose. Of course all of us want businesses to be fair, clean beneficial to the society. For that to happen, organizations need to abide by ethics or rule of law, engage themselves in fair practices and competition; all of which will benefit the consumer, the society an organization.

Primarily it is the individual, the consumer, the employee or the human social unit of the society who benefits from ethics. In addition ethics is important because of the following:

**1. Satisfying Basic Human Needs:** Being fair, honest and ethical is one of the basic human needs. Every employee desires to be such himself and to work for an organization that is fair and ethical in its practices. Everybody likes to be associated with an organization which the society respects as a honest and socially responsible. Hence, HR managers have to fulfill this basic need of employees as well as their own.

**2. Creating Credibility:** An organization that is believed to be driven by moral values is respected in the society even by those who may have no information about the working and the business or an organization. Infosys, for example is perceived as an organization for good corporal governance and social responsibility initiatives. This perception is held far and wide even those who do not even know what business the organization is into.

**3. Uniting People and Leadership:** An organization driven by values is revered by its employees also. They are the common thread that brings the employees and the decision makers on a common platform. This goes a long way in aligning behaviors within the organization towards achievement of one common goal or mission.

**4. Improving Decision Making:** A man's destiny is the sum totals of all the decisions that he/she takes in course of his life. The same holds true for organizations. Decisions are driven by values. For example an organization that does not value competition will be fierce in its operations aiming to wipe out its competitors and establish a monopoly in the market.

**5. Long term Gains:** Organizations guided by ethics and values are profitable in the long run, though in the short run they may seem to lose money.

**6. Securing the Society:** Often ethics succeeds law in safeguarding the society. The law machinery is often found acting as a mute spectator, unable to save the society and the environment.

Technology, for example is growing at such a fast pace that by the time law comes up with a regulation we have a newer technology with new threats replacing the older one. Lawyers and public interest litigations may not help a great deal but ethics can.

Ethics tries to create a sense of right and wrong in the organizations and often when the law fails, it is the s that may stop organizations from harming the society or environment.

### ***SOURCES OF BUSINESS ETHICS***

Ethics in general refers to a system of good and bad, moral and immoral, fair and unfair. It is a code of conduct that is supposed to align behaviors within an organization and the social framework. But the question that remains is, where and when did business ethics come into being?

Primarily ethics in business is affected by three sources - culture, religion and laws of the state. It is for this reason we do not have uniform or completely similar standards across the globe. These three factors exert influences to varying degrees on humans which ultimately get reflected in the ethics of the organization.

### **RELIGION**

It is one of the oldest foundations of ethical standards and inspiration. Religion wields varying influences across various sects of people. It is believed that ethics is a manifestation of the divine and so it draws a line between the good and the bad in the society. Depending upon the degree of religious influence we have different sects of people; we have sects, those who are referred to as orthodox or fundamentalists and those who are led as moderates. Needless to mention, religion exerts itself to a greater degree among the Orthodox 1 to lesser extent in case of moderates. Fundamentally however all the religions operate on the principle of reciprocity towards ones fellow beings. Great religions preach the necessity for an orderly social system and emphasize upon social responsibility with an objective to contribute to the general welfare.

### **CULTURE**

Culture is a pattern of behaviors and values that are transferred from one generation to another. It is a set of important understandings that members of a community share in common and are considered as ideal or within the acceptable limits. No wonder therefore that it is the culture that predominantly determines what is wrong and what is right. It is the culture that defines certain behavior as acceptable and others as unacceptable.

Human civilization in fact has passed through various cultures, wherein the moral code was redrafted pending upon the epoch that was. What was immoral or unacceptable in certain culture became acceptable later on and vice versa.

During the early years of human development where ones who were the strongest were the ones who survived! Violence, hostility and ferocity were thus the acceptable. Approximately 10,000 year ago when human civilization entered the settlement phase, hard work, patience and peace were seen as virtues and le earlier ones were considered otherwise. These values are still put in practice by the managers of today. Culture encourages members of an organization to give priority to organizational goals over and above their interests. It serves as a control mechanism that guides and shapes the attitudes and behavior of people.

## **LAW OF THE LAND**

Laws are procedures and code of conduct that are laid down by the legal system-of the state. They are meant to guide human behavior within the social fabric. The major problem with the law is that all the ethical expectations cannot be covered by law. The society expects that businesses abide by the law. However, seldom do businesses adhere to the rule of law and regulations. Law breaking in business is common. For example, most companies evade paying taxes, hoarding, adulteration, poor quality and high priced products and services, environmental pollution etc.

Values and ethics are central to any organization. What exactly do we mean by values and ethics? Both are extremely broad terms, and we need to focus in on the aspects most relevant for strategic leaders and decision makers.

### ***Defining Values, Morals, and Ethics***

- Business ethics is the accepted set of moral values and corporate standards of conduct in a business organization. The specifics of what this actually means can vary from one organization to another.
- Business ethics is the study of the standards of business behavior which promote human welfare and the good.
- Business ethics manifests both as written and unwritten codes of moral standards that are critical to the current activities and future aspirations of a business organization.
- They can differ from one company to another because of differences in cultural perspectives, operational structures and strategic orientations.
- The guiding framework of business ethics permeates all levels of the organization.
- It is about having the wisdom to determine the difference between right actions and wrong decisions.
- In simpler terms, business ethics fundamentally epitomizes the organization's codes of corporate governance. It stipulates the morality standards and behavioral patterns expected of individuals and the business as a whole.

- These moral benchmarks can be perceived in terms of the microenvironment and macro environment of the business.

**Business ethics** (also **corporate ethics**) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Business ethics has both **normative** and **descriptive** dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns. Interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporations promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters. Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

## **WHAT IS THE DIFFERENCE BETWEEN ETHICS, MORALS AND VALUES?**

The answer depends on perspective of the individual answering the. i.e from a businessman's perspective, philosopher, lawyer, theologian , academician etc

### **Values are our fundamental beliefs**

- They are the principles we use to define that which is right, good and just. Values provide guidance as we determine the right versus the wrong, the good versus the bad. They are our standards.
- Consider the word "evaluate". When we evaluate something we compare it to a standard. We determine whether it meets that standard or falls short, comes close or far exceeds. To evaluate is to determine the merit of a thing or an action as compared to a standard.
- Typical values include honesty, integrity, compassion, courage, honor, responsibility, patriotism, respect and fairness.

**Morals are values which we attribute to a system of beliefs**, typically a religious system, but it could be a political system of some other set of beliefs. These values get their authority from something outside the individual- a higher being or higher authority (e.g. society). In the business world we often find ourselves avoiding framing our ethical choices in moral terms for fear that doing so might prove offensive (lacking in respect or compassion) to some. Many of us find our values are strongly influenced by our sense of morality - right as defined by a higher authority. Yet we refrain from citing that authority because doing so may seem less rational and

more emotional to others who do not share our belief system. The lack of public reference to morals does not diminish the power of moral authority. Avoiding a morality-based rationale is a social convention and one that is not universally practiced.

By that definition one could categorize the values listed above (honesty, integrity, compassion ...) as “moral values” - values derived from a higher authority. That is a convenient way to differentiate them from what are often called utilitarian or business values, such as excellence, quality, safety, service, which define some elements of right and good in a business context.

### **Ethics is about our actions and decisions.**

When one acts in ways which are consistent with our beliefs (whether secular or derived from a moral authority) we will characterize that as acting ethically. When one’s actions are not congruent with our values - our sense of right, good and just - we will view that as acting unethically.

Defining what is ethical is not an individual exercise however. If it were then one could have argued that what Hitler did was ethical since his actions conformed to his definition of right, fair and good. The ethics of our decisions and actions is defined societally, not individually.

If society is dominated by a single religious or cultural belief system, as is the case in some countries, then what is ethical and what is moral may be defined as the same thing. In societies where there is not a monolithic belief system there can be very wide differences in opinion in society as to whether a given action is ethical (or moral).

Consider several of the long-standing national debates that are going on in the United States. Often the controversy is the result of people coming to a question from different moral positions or from different values. Take the very difficult question of abortion. If your religious belief system defines abortion as taking a life then you cannot be ethical (acting in ways that are consistent with your values) and support the position that abortion is a woman’s individual choice. If your personal value system holds that control of one’s body is an inviolable personal right then the idea that others - individually or collectively - can impose their will on you is antithetical to that right.

Culturally we also see differences as to how values are defined. In US society we stand against nepotism. We believe that a concern for fairness to all employees demands that large businesses protect their employees from the unfairness inherent in the situation where an individual supervisors a member of his or her immediate family. The concern is for the inevitability of preferential treatment and/or the inappropriate sharing of personal/confidential information about others in the workplace. Fairness demands that nepotism not be tolerated. In the Arab world, nepotism is often viewed as an illogical concern. The cultural obligation to look after one’s family outweighs other concerns. Of course one would favor family. That is what family does. That is the right thing to do.

While I am not arguing that ethics is “situational” I am arguing that while we may agree on values, we may disagree as to which values apply or which actions best satisfy those values. Is it

fair to treat each employee identically (equality) or is it fair to treat each employee according to his or her needs (equity)? In our society we argue both.

And of course we have ethical dilemmas, where the choice is not between what we believe to be right and what we believe to be wrong, but between competing rights. The classic case: "Is it ethical to steal a loaf of bread to feed a starving child." The answer, "It depends." But that is another article.

## THE CHARACTER OF VALUES AND ETHICS

**Values** can be defined as those things that are important to or valued by someone. That someone can be an individual or, collectively, an organization. One place where values are important is in relation to vision. One of the imperatives for organizational vision is that it must be based on and consistent with the organization's core values. In one example of a vision statement we'll look at later, the organization's core values - in this case, **integrity, professionalism, caring, teamwork, and stewardship**- were deemed important enough to be included with the statement of the organization's vision. Dr. John Johns, in an article entitled "The Ethical Dimensions of National Security," mentions honesty and loyalty as values that are the ingredients of integrity. When values are shared by all members of an organization, they are extraordinarily important tools for making judgments, assessing probable outcomes of contemplated actions, and choosing among alternatives. Perhaps more important, they put all members "on the same sheet of music" with regard to what all members as a body consider important.

Values are what, as a profession, judge to be right. They are more than words-they are the moral, ethical, and professional attributes of character.

**Values** are the embodiment of what an organization stands for, and should be the basis for the behavior of its members. However, what if members of the organization do not share and have not internalized the organization's values? Obviously, a disconnect between *individual and organizational values* will be dysfunctional. Additionally, an organization may publish one set of values, perhaps in an effort to push forward a positive image, while the values that really guide organizational behavior are very different. When there is a disconnect between *stated and operating values*, it may be difficult to determine what is "acceptable."

The same thing works at the level of the society. The principles by which the society functions do not necessarily conform to the principles stated. Those in power may covertly allow the use of force to suppress debate in order to remain in power. ("death squads" are an example.) In some organizations, dissent may be rewarded by termination-the organizational equivalent of "death squad" action. In others, a group member may be ostracized or expelled.

Group members quickly learn the *operating values*, or they don't survive for long. To the extent they differ from *stated values*, the organization will not only suffer from doing things less effectively, but also from the cynicism of its members, who have yet another reason for mistrusting the leadership, or doubting its wisdom.



VALUES PROVIDE THE BASIS FOR JUDGMENTS ABOUT WHAT IS IMPORTANT FOR THE ORGANIZATION TO SUCCEED IN ITS CORE BUSINESS.

So, there are some disconnects, and these disconnects create problems. However, the central purpose of *values* remains. They state either an actual or an idealized set of criteria for evaluating options and deciding what is appropriate, based on long experience. The relevance of the Army's *values*, for example, is apparent. When soldiers may be called upon to expose themselves to mortal danger in the performance of their duty, they must be absolutely able to trust their fellow soldiers (to do their fair share and to help in the event of need) and their leaders (to guard them from unnecessary risk). So the Army's *values* prescribe conditions that facilitate trust, a necessary element in willingness to face danger. Without trust, risk tolerance will be low, as will combat effectiveness.

TO BEHAVE ETHICALLY IS TO BEHAVE IN A MANNER THAT IS CONSISTENT WITH WHAT IS GENERALLY CONSIDERED TO BE RIGHT OR MORAL. ETHICAL BEHAVIOR IS THE BEDROCK OF MUTUAL TRUST.

So how do values relate to *ethics*, and what do we mean by ethics? One of the keys is in the phrase we quoted above from the DA pamphlet: "Values are what we, as a profession, judge to be right." Individually or organizationally, **values determine what is right and what is wrong, and doing what is right or wrong is what we mean by ethics. To behave ethically is to behave in a manner consistent with what is right or moral.** What does "generally considered to be right" mean? That is a critical question, and part of the difficulty in deciding whether or not behavior is ethical is in determining *what* is right or wrong.

## ETHICAL RESPONSES

Organization members have only three choices when confronted with unethical behavior: exit, voice, or loyalty.

**Exit** is the most direct response: if you can't live with behavior that does not meet your own ethical standards, leave. However, exit is not only a direct response, it is a final one, so the personal and organizational consequences must be considered. The most important personal consequences are the costs. Where do you go from there? What other options are available? How marketable are you? Can you afford the financial loss?

There are specific organizational consequences as well. Will the ethics of the organization's leaders change? Will they do business with someone else who doesn't have the high standards you do? In leaving, one gives up the ability to influence the organization directly. When considering exit, one must ask, "Could I have had more of an impact by remaining in the organization and trying to change it from within?"

**Voice.** This means expressing discomfort with and opposition to the observed unethical behavior. To whom do you voice your objections? The obvious choice is your supervisor. But what if your supervisor condones the unethical behavior, or worse, is its source? You may be jeopardizing your position, and maybe your membership in the organization. A second choice is

to go to senior management. This also has potential risk. The senior leadership may be condoning or even directing the unethical behavior. This action may bring your loyalty into question. If so, your objections may be covered up or ignored, and you may end up being forced out of the organization.

On the other hand, it may be that the senior leadership is unaware of the unethical behavior, and you may have initiated an organizational response eliminating unethical behavior and restoring ethical standards. A third option is to go public, to engage in "whistle blowing." This is also risky, because it can lead to reprisals with negative consequences. The level of risk depends on the commitment of the organization to high ethical standards and on its willingness to encourage whistle blowing in its own best interests. Many organizations have shown commitment to ferreting out unethical individuals and maintaining high ethical standards by establishing procedures for anonymous reporting of ethical breaches and safeguards to protect whistleblowers.

Exit and voice may be combined. An individual resigns in protest and goes public with his or her reasons for leaving. This leaves the individual vulnerable to the label of an employee who quit before being fired, but it also can lead to increased credibility as someone acting on conviction in spite of personal cost. Exit combined with voice is most effective if taken by someone at the upper levels of the organization. An organization can more easily ignore the "exit + voice" of a lower level employee than it can the resignation of a strategic leader, followed immediately by a press conference. The widely publicized resignation of former President Bush from the National Rifle Association over what he viewed as extreme actions is an example of exit combined with voice. It undoubtedly had a much greater effect on the NRA than the resignation of someone less well known and respected. The resignation of James Webb as Secretary of the Navy is another example of effective exit combined with voice.

**Loyalty.** The final response to unethical behavior in an organization is loyalty. This is the alternative to exit. Instead of leaving, the individual remains and tries to change the organization from within. Loyalty thus discourages or delays exit. Loyalty also may discourage public voice, since being loyal to the organization means trying to solve problems from within without causing public embarrassment or damage. Loyalty can also encourage unethical behavior, particularly in organizations which promote loyalty above all. These organizations discourage exit and voice, and basically want their members to "go along" with organizational practices. An interesting question is, "Can an individual be loyal to an organization by engaging in exit or voice as a response to unethical behavior?"

Chaloupka maintains that both exit and voice must exist for continued organizational effectiveness. Additionally, an organization cannot maintain high ethical standards without mechanisms for eliminating unethical behavior. Also, loyalty is not always a virtue. Loyalty should be predicated on the organization's ethical demonstration that it is worthy of loyalty. If the organization condones unethical behavior, it relieves the individual of any responsibility to be loyal.

## ***ETHICAL THEORIES AND THEIR APPLICATION IN BUSINESS***

### **Relativism and absolutism**

An ethical theory that claims right and wrong is subjectively determined by each culture. Relativism states that two people or two societies may hold opposed ethical views to one another, and yet both may be correct. What is good is socially accepted and what is bad is socially unacceptable in a given culture.

There is no such thing as universal truth in ethics; there are only the various cultural codes and nothing more.

An argument against relativism: There are some basic moral principles that all societies will have in common, because those rules are necessary for society to exist. The Golden Rule: advises each person to “do unto others as you would have others do unto you.”

### **Relativism and Subjectivism**

A lot of people think that the subjectivity of morality is obvious. If so, it should be relatively easy to produce good reasons in support of the subjectivist point of view. What might these reasons be? Among the most commonly cited are three. The **first** is that people hold all sorts of conflicting moral opinions; the **second** is that they do so because of the impossibility of proving the superiority of one moral view over another; and the **third** is that proof is impossible since there are no observable moral ‘facts’. One way of assessing the plausibility of subjectivism, then, is to ask about the truth of these claims and what, if they are indeed true, they actually imply.

Now the first proposition – that there are serious moral disagreements between people – can hardly be denied. Nor is this just a matter of individual disagreement; from ancient times it has been noted that such differences are to be found between entire cultures. The ancient Greek historian Herodotus, for example, recounts an episode in which the King of Persia induced horror on the part of both Greeks and Galatians by asking them to adopt each other’s funeral practices. What the Greeks took to be right and proper – burning their dead – the Galatians regarded as utterly abhorrent. But since, by contrast, fire burned just the same in both Greece and Persia, Herodotus’s implication is that moral practices are unlike physical phenomena in being relative to cultural contexts. While the laws of nature remain the same everywhere, rules of conduct differ from place to place.

This example has often been used to illustrate the position known as ‘ethical relativism’, the belief that ethical views are always relative to some particular culture or other. What this says (continuing with this example) is that cremation of the dead is right for the Greeks, but wrong for the Galatians. By implication, there is nothing right or wrong per se, or universally. But why stop at differences between groups of people? There are also differences of this kind to be found between individuals. Something that truly horrifies one person, another can find quite acceptable. What is called ‘subjectivism’ is really just an extension of relativism from the level of the social group to the level of the individual. But if moral differences are relativized to individuals, this seems to suggest that, when it comes to ethics, there is no truth of the matter to be discovered.

It is not hard to find examples from our own time and culture that lead people to this subjectivist conclusion. One of the most vexed moral issues of the modern Western world is abortion. While

everyone can easily agree what medical procedures will result in an abortion, there does not appear to be anything like the same agreement on whether abortion is morally right or wrong. That is to say, when it comes to abortion, agreement is easily reached on matters of medical science, whereas on matters of medical ethics it is not. Moreover it seems that the examples can be multiplied very easily. For instance, everyone can agree on the relative effectiveness of different methods of capital punishment – lethal injection versus the electric chair say. What they cannot agree about is whether either method is morally justified or not.

So, at any rate, it appears. But appearance is not reality. Is it really the case that there is far more difference of opinion on moral than on medical or scientific matters? One point worth making is that, while moral disagreement hogs the headlines, so to speak, there is actually a lot of moral agreement

in the contemporary world. It would be difficult to find anyone who thought rape, murder or theft a good thing, or believed honesty, loyalty and generosity to be evil things. Everyone condemns slavery, the sexual molestation of children and cheating at sport. This is not to say that there are no cheats and child molesters, or even that there are no slaves.

But there is no one who openly owns up to these things as a matter of pride. This marks these off from the sort of example that impressed Herodotus. The Athenians and the Spartans were proud of the way they did things, and horrified by the practices of others. Often child molesters are not suitably horrified by what they have done; but they are never openly proud of it as an alternative lifestyle, and in those relatively rare cases when they do not seem to be at all ashamed of their deviant behaviour, this is usually some indication of mental illness. Moral differences of opinion can be exaggerated, then. While abortion, euthanasia and capital punishment are indeed the subject of much dispute and disagreement, there is in fact a very large range of issues on which there is little moral disagreement. A similar point can be made in the opposite direction; the degree of scientific or factual agreement can be exaggerated.

### **Consequentiality / Utilitarianism approaches**

Consequential: evaluate action by examining the consequences produced by the action.

Consequential Ethics

- Egoism: rightness determined by consequences the act produces for person performing the action. Holds one will act in a manner which produces greatest balance of good over bad for oneself.
- Utilitarianism: rightness determined by consequences the act produces for one's group. Holds one should act in such a manner which will, over time, produce most good over bad for one's group.
- Feminism: emphasizes attention be paid to the effect of decisions on individuals. Focuses on character traits.
- Egoism is a moral theory that contends all choices either involve or should involve self-promotion as their sole objective.

### **Ethical Egoism**

- The only valid standard of conduct is the obligation to promote one's own well being above everyone else's.
- Ethical egoists believe that people should not be their brother's keeper, because people do not completely understand the true needs of others.
- It's every man for himself in this world!
- Teleological or consequentiality theories measure morality based on the consequences of actions. Ethical egoism focuses exclusively on maximizing the good for the moral agent (Reidenbach & Robin, 1990). There are a few variations of the theory, but two forms of egoism are the most dominant: psychological egoism and ethical egoism. Psychological egoism is a descriptive theory of human behavior that holds that people are naturally programmed to behave only in their own self-interest. Ethical egoism is the normative theory whereby people ought to act exclusively in their self-interest (Reidenbach & Robin, 1990; Jones et al., 2007). Thus, the moral principle of ethical egoism suggests that an act is ethical when it promotes the individual's long-term interest (Shultz & Brender-Ilan, 2004; Jones et al., 2007). Note that it is possible for people to help others, follow the rules of society, and even grant gifts if they believe that those actions are in their own best interest.
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### **Psychological Egoism**

- Everyone is always motivated to act in his or her own perceived self-interest.
- A main argument against psychological egoism is that there may be no purely altruistic moral motivation to help other people unless there is personal gain.

What is the best sort of life to aim for? There is a familiar, almost commonplace answer to this question – to be rich and famous. This is a conception of the best life to have that is echoed in, and reinforced by media coverage of the life of the stars. It is also the idea that induces very large numbers of people to spend money on national lottery tickets when there is only a tiny chance of winning. Yet, as an answer to the philosopher's question, the idea that the best life is a rich and famous one does not take us very far, not so much because it is an un-worthy ambition (though it may be) but because it is logically incomplete, and necessarily so.

### **Instrumental and Intrinsic Value**

Consider first the aspiration to be rich. If being rich means having a lot of money to spend, the belief that it is good to be rich in an important sense turns out to be vacuous. This is because, strange though it may sound, money in itself has no value whatever. If it were not exchangeable for other, quite different things – food, clothing, entertainment, i.e. goods and services that are independently valuable – we might as well throw it away.

This point is not always easy to appreciate. So accustomed are we to thinking of the notes and coins in our pockets and purses as valuable, that the essentially valueless character of money itself can elude us. Yet, we only have to remind ourselves how worthless the currency of one country is in another country where it cannot be spent on the things that we want. In fact, the only thing that makes money valuable is its usefulness as a medium of exchange for goods and

services that are valuable, in themselves. When it cannot be used in this way, it has no value at all.

One way of expressing this feature of money, a feature it shares with many other things, is to say that money has instrumental but not intrinsic value. That is to say, it is valuable only as a means of obtaining something else; it has no value in itself. We could have lots of money in our possession, and still be unable to get the things we need and value. Perhaps we find ourselves in a desert with thousands of dollars, yet lacking the food and water we desperately require because there is nowhere to buy them.

What this shows is that money is only as valuable as the things it is a means to. It follows from this that to say that the best life is one in which we have lots of money is not really an answer to the question ‘What is the best life for a human being?’ because it does not tell us what to spend our money on. A related though, somewhat different point can be made about fame. If being famous means being well-known to a great many people, it too leaves unanswered the basic question because it does not tell us what we ought to want to be famous for. Is it equally good whether we are famous for the invention of life-saving drugs, like Alexander Fleming who discovered penicillin, for having killed more patients than any doctor in history, like the mass murderer Harold Shipman, for being the first person to conquer Everest like Sir Edmund Hillary, or for having amassed an absurd number of pairs of shoes like Imelda Marcos, wife of the Filipino dictator? Since we can be famous for quite different kinds of things – some good, some evil, some momentous, some trivial – and since such differences are obviously important, fame in and of itself does not seem to be specially worth striving for.

Someone who longed to be famous might reply that he or she valued fame regardless of what it was for, and therefore, unlike money, fame can be valued in itself. Not everyone will so value it, of course, but unlike the miser who mistakenly values money in and for itself, the seeker after fame is not making any kind of logical error. At one level, this is correct, but there is still something about fame that makes it insufficiently valuable by itself. Suppose someone sets out to be famous without caring what he is famous for. Even so, he has to choose something to be famous for – whether good, evil, momentous or trivial. But having done so, failure to achieve his chosen goal is a possibility. Now let us imagine that he not only fails, but fails spectacularly.

## **Utilitarian Theories**

- Moral theories that assert an action’s rightness is determined by the actual or probable consequences that the action will have for the greatest number of people affected by that action
- Utilitarian theories hold that the moral worth of actions or practices is determined solely by their consequences.
- An action or practice is right if it leads to the best possible balance of good consequences over bad consequences for all the parties affected.
- Act utilitarianism

-Argues that in all situations the utility of an action is based on an act that leads to the greatest good for the greatest number.

-Treats rules as useful guidelines to help determine ethical behavior.

-Will break a moral rule if breaking the rule leads to the greatest good for the greatest number.

- Rule utilitarianism
  - The morality of an action should be evaluated on the basis of principles or rules designed to promote the greatest utility for the greatest number.
  - Rule utilitarianism hold that rules have a central position in morality that cannot be compromised by the demands of particular situations.
- Utilitarian decision-making relies on tools such as cost-benefit analysis and risk assessment to determine the greatest utility.
- Main argument against utilitarianism is questioning whether units of happiness or some other utilitarian value can be measured and compared in order to determine the best action among alternatives.

Utilitarianism represents the dominant and most influential normative teleological or consequential ethical philosophy, and its different forms incorporate various concepts of utility. Jeremy Bentham (1789) and John Stuart Mill (1863) embraced a "hedonistic" conception of "pleasure" or "happiness." Pluralistic utilitarian's have developed an approach that added a list of other intrinsically good things to pleasure, such as knowledge, freedom, friendship, etc. Preference utilitarianism proposes a firmer basis for theories of utility, based on peoples' desires, choices, and behavior rather than on pleasure (Snoeyenbos & Humber, 2002). Utilitarianism focuses on ends and not on the means required to achieving those ends and it takes into account all present and future benefits and harms that accrues or might accrue to anyone who is affected by the action, including items that may be difficult to evaluate accurately (Schumann, 2001).

According to the utilitarian moral principle, an act is morally acceptable if it produces the greatest net benefit to society as a whole, where the net social benefit equals social benefits minus social costs (Bentham, 1789; Mill, 1957; Brandt, 1979; Rachels, 1999; Velasquez, 1998; Schumann, 2001; Cavanagh, 1981). Utilitarianism regards the welfare of any single individual as no more or less important as the welfare of any other individual, but it does not assume that all individuals should be treated in the same way. For example, it would endorse unequal treatment that maximizes the general welfare (Airaksinen, 1987; Lyons, 1994). Research generally distinguishes between two forms of utilitarianism: act utilitarianism, which includes maximizing benefits relative to costs for a specific decision at hand, and rule utilitarianism, which involves following rules designed to achieve the greatest net positive consequences over time (Fritzsche & Becker, 1984; Premeaux & Mondy, 1993; Premeaux, 2004). Utilitarian decision makers are required to estimate the effect of each alternative on all parties concerned, and to select the one that optimizes the satisfaction of the greatest number (Cavanagh, 1981; Velasquez, 1998).

## **STRENGTHS and WEAKNESSES Utilitarianism**

<p><b>Rationality and practicality</b></p> <p>Utilitarian ethics rests on a rational calculation of numbers of people whose pleasure or happiness is maximised. There is a clarity and simplicity to this.</p> <p><i>“By sticking firmly to the Principle of Utility as the only standard for judging right and wrong, it avoids all danger of incorporating into moral theory prejudices, feelings and intuitions with no rational basis”. James Rachels (2007:115)</i></p> <p>This principle of rational calculation is also <i>practical</i>. For example, the 1967 Abortion Act focuses on the happiness of mother and potential happiness of the child (but not fathers!). The mother’s mental and physical health, the child’s disability and whether it’s wanted are all added to the utility calculation.</p>	<p><b>Problem with motive</b></p> <p>There are two difficulties in answering the question, “<i>why</i> should I maximize pleasure or happiness?”</p> <ol style="list-style-type: none"> <li>1. The difficulty defining the idea of pleasure or happiness. <i>“Bentham and Mill don’t notice the difficulty of the concept of “pleasure” ...a fatal objection at the outset”</i>. Anscombe (1958:2)</li> <li>2. The difficulty in making me think of the interests (happiness) of others. Mill tries to bring “sympathy” in as a kind of virtue or psychological motive, but it’s not convincing.</li> </ol> <p><i>“The principle of the greatest happiness, fine though it is as an ideal, does not identify a motive”</i>. Scruton</p>
<p><b>Equality is central</b></p> <p>Bentham wrote “<i>everyone is to count as one, and no-one as more than one</i>”. This radical idea implies that everyone has equal weight in the utility calculation, although the issue of rights remains a problem. Suppose, on an equal vote, you all vote for my dismissal (or even death) in line with maximising general happiness?</p> <p><i>“The utilitarian emphasis on impartiality must be a part of any defensible moral theory”</i>. Rachels (2006:114)</p> <p>For an interesting treatment of whether utilitarianism can handle the issue of animal rights, see Rachels (2006: 96-100).</p>	<p><b>Integrity is lost</b></p> <p>Bernard Williams’ famous example has Jim arrive as a guest, to be invited to shoot one Indian in order to save 19. He argues that to be a utilitarian is to deny me moral integrity: there are some things I cannot do, because of my moral <i>feelings</i> about it.</p> <p><i>“Our relation to the world is partly given by moral feelings; to regard those feelings as happening outside our moral self is to lose our identity”</i>. Williams, <i>Utilitarianism For and Against</i> pg 104</p>



<p><b>Takes account of the future</b></p> <p>Issues of climate change, potential future wars and famines all suggest we need an ethical theory that takes into account those yet unborn.</p> <p>“Utilitarians seen to provide a very strong philosophical justification for the notion that we have obligations to future generations..it does not matter that we cannot identify these people..we have an obligation to leave as good a world as we can” Pojman (2006:123, 125)</p>	<p><b>Justice is flouted</b></p> <p>Louis Pojman asks us to imagine a utilitarian physician who has five patients needing different organs. A healthy bachelor comes in needing immunisation and “you judge he would make a perfect sacrifice for your five patients.This cavalier attitude to justice offends us” (2006:118).</p> <p>“Utilitarianism is at odds with the idea that people have <i>rights</i> that may not be trampled on merely because one anticipates good results”. Rachels (2006:108)</p> <p>Arthur Koestler reminds us how in Stalin’s Russia, torture, confession and execution were routinely used to serve “the general good”.</p> <p>NB Rule-utilitarians like Mill try to overcome this problem by enshrining rights as <i>rules of justice</i> serving total utility.</p>
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Based on the theory of 'the most happiness for the most people' is one answer to ethical questions. Utilitarianism was devised by Jeremy Bentham. There are many problems in life that need answers that cannot be found in books or any other source. A person needs to decide himself what is the correct way to respond to the questions that life throws up. This is where ethical theory comes in useful. However, deciding which ethical theory to follow is extremely difficult. This article focuses on Utilitarianism.

Jeremy Bentham was a lawyer and devised his theory of Utilitarianism in the late eighteenth century. It is a teleological approach because it focuses on the consequences of an action, as opposed to whether or not an action is intrinsically good in itself. As Bentham stated on his book *An Introduction to the Principles of Morals and Legislation*, ‘by utility is meant that property of any object whereby it tends to produce benefit, advantage, pleasure, good or happiness.’ The theory is hedonistic; it focuses on the pursuit of pleasure. An action is good if it brings about the most amount of pleasure or happiness for the most people and the least amount of pain. For example, Bentham would argue that torturing one person who knows where a bomb is that will kill several people is a good act, because it would prevent the pain of the people who are affected by the bomb, including the families of those who die.

However, a problem with this is how to calculate happiness and pleasure; it is different for every person. To try and tackle this, Bentham devised the Hedonic Calculus. The Calculus takes into account seven options; intensity of the pleasure / happiness, duration, intensity, remoteness,

certainty of the happiness coming about, fecundity, purity, extent. This approach takes into account the amount of pleasure derived from the action. This is therefore a quantitative approach.

John Stuart Mill was the son of Bentham's friend and decided that although the principle of Bentham's Utilitarianism was sound, the approach needed improving. He disagreed that pleasure was quantitative; he believed that different pleasures had different qualities. There were higher and lower pleasures, and higher pleasures should be prioritized. Lower pleasures include those that are essentially for basic human survival, for example food and drink. Higher pleasures are those which facilitate a higher brain function, for example an appreciation of fine art, or a beautiful view. Mill worried that the Hedonic calculus would allow lower pleasures to supersede the more important higher pleasures. Instead of the calculus, Mill introduced rules which must be taken into account within Utilitarianism. There are hard rule which must not be broken, and others which can be manipulated if needed, called soft rules.

### Advantages

Utilitarian theory takes into account the well-being of the general population; it takes into account the consequences of an action. It is an easy ethic to use in a democracy; the dangerous minority cannot be in control. Also, it does not rely on religious belief and principles which cannot be verified.

### Disadvantages

There are however, some disadvantages to the theory. It depends on accurately predicting the long term affects of the action, which cannot always be done. Also it does not take into account personal relationships, for example many would save their child from a burning bus, even if it is possible to save three other strangers in the time it takes to reach your child. It also can lead to ignoring the needs of the minority even though their claim is a just one. Finally, the theory is changeable, and does not help a person to decide what is universally good.

Some critics say that Utilitarianism is unsatisfactory as a theory of ethics as it has many disadvantages. First of all, the Hedonic relies on knowledge of the consequences for an accurate calculation, however many consequences are hard to predict or may not be apparent till many years in the future. It is also difficult to quantify pleasure meaning it is hard to count pleasure into a practical number for use of comparison. Furthermore, some pleasures caused by situations can actually be morally wrong and likewise, some pains can be actually good for us. One of the most significant arguments against Utilitarianism is the problem of justice; although it produces the greatest good for the greatest number, the pleasure is not evenly distributed among the people affected, instead, a majority can benefit from the pleasure while others suffer.

### **Non Consequentiality/ Deontology/ Duty Ethics**

Non-consequential: focus of the concept of "duty" rather than what is right or wrong.

- Non-Consequential Ethical Theories.

- Kant and the Categorical Imperative: suggests certain universal moral truths every person must follow in order to act morally and ethically. Imperative that one follows certain perfect truths.
- Rawls and the Veil of Ignorance: theory suggesting that rules of ethical behavior be created by persons who ignore their own characteristics and circumstances including gender, race, ethnicity, and/or religion.

## **Deontology**

Deontology is associated mostly with Immanuel Kant who argued that the highest good was the good will, and morally right actions are those carried out with a sense of duty (Kant, 1998 (1781; 1785)). Thus, it is the intention behind an action rather than its consequences that make that action good (Bowie, 2002). Kantian moral philosophy is based on the categorical imperative: "Act only on that maxim by which you can at the same time will that it should become a universal law." Kant's second formulation of the categorical imperative dictates that human beings should be treated not simply as a means to one's own ends but also as ends in themselves (Bowie, 1999; Sullivan, 1989). It follows that people in business relationships should not be used, coerced, or deceived, and that business organizations and practices should be arranged so that they contribute to the development of human rational and moral capacities (Bowie, 2002).

The third Kantian rule requires that one should act as if he were a member of an ideal "kingdom of ends," in which he is both king and sovereign at the same time. In the organizational arena, this means that the rules that govern an organization must be such that can be endorsed by every member in the organization. Moreover, a person who adopts a Kantian point of view sees the organization as a moral community within which each member of the organization stands in a moral relationship with all others (Bowie, 1999). A manager who accepts Kantian morality would ask whether the principle on which any given decision is based passes the test of the categorical imperative. Is the principle based on good will? Does it treat people as ends in themselves? And can it be willed universally without contradictions? Unless the principle of your action can be universalized, it is immoral to make an exception for yourself (Bowie, 2002).

**Kantian Ethics:** A moral theory that holds you should follow only those rules which will to be universal laws for everyone, including yourself.

- Categorical imperative principle states "I ought never to act except in such a way that I can also will that my maxim should become universal law."
  - The principle is categorical because it admits of no exceptions and is absolutely binding, and is imperative because it gives instruction on how one must act.
- Respect-for-persons principle states persons should never be used as a means to an end.
- Kant believed that morality should follow absolute rules that admit no exceptions, which has been a major argument against this theory.
- Another argument against Kantian theories is that they are narrow and inadequate to handle various problems in the moral life.

Kant argued that the highest good was the good will. To act from a good will is to act from duty. Thus, it is the intention behind an action rather than its consequences that make that action good. For example, for Kant if a merchant is honest so as to earn a good reputation, these acts of being

honest are not genuinely moral. The merchant is only truly moral if he or she is honest because being honest is right (one's duty). Persons of good will do their duty because it is their duty and for no other reason. It is this emphasis on duty, and the lack of concern with consequences that makes Kant the quintessential deontologist.

But what does Kantian morality think our duties are? Kant distinguished between two kinds of duty (imperatives).

1. Sometimes we do something so that we may get something else. We go to work to earn money or study to earn good grades. If you want good grades, you ought to study. Kant referred to this kind of duty as a hypothetical imperative because it is of the form if you want to do *x*, do *y*. The duty to study is dependent on your desire for good grades.

2. Other duties are required *per se*, with no ifs, ands or buts. Kant described these duties as categorical and referred to the fundamental principle of ethics as the categorical imperative. He believed that reason provided the basis for the categorical imperative, thus the categorical imperatives of morality were requirements of reason. Although Kant spoke of "the" categorical imperative, he formulated it in many ways. Most commentators focus on three formulations:

1. Act only on maxims which you can will to be universal laws of nature.
2. Always treat the humanity in a person as an end, and never as a means merely.
3. So act as if you were a member of an ideal kingdom of ends in which you were both subject and sovereign at the same time.

Kant believed that only human beings can follow laws of their own choosing (i.e. act rationally). Human beings are the only creatures that are free, and it is the fact that we are free that enables us to be rational and moral. Our free will is what gives us our dignity and unconditioned worth.

Kant's ethics then is an **ethics of duty** rather than an ethics of consequences. The ethical person is the person who acts from the right intentions. We are able to act in this way because we have free will. The fundamental principle of ethics, the categorical imperative, is a requirement of reason and is binding on all rational beings. These are the essentials of Kant's ethics. Let us see how they apply, specifically, to business ethics.

### **The importance of purity of motive**

- Kant argued that the highest good was the good will. To act from a good will is to act from duty. Thus, it is the intention behind an action rather than its consequences that make that action good. For example, for Kant if a merchant is honest so as to earn a good reputation, these acts of being honest are not genuinely moral.

- An action is only truly moral if it is morally motivated. Truly moral actions cannot be contaminated by motives of self-interest. Since the good acts of even the most enlightened

corporations are almost always justified in part on the grounds that such actions are profitable, it may appear that even the best actions of the best corporations are not truly moral.

In discussing this issue, people seem to assume that actions that enhance the bottom line are acts of self-interest on the part of the corporation. However, for publicly held corporations and for partnerships, this is not the case. Publicly held corporations have an obligation to make a profit based on their charters of incorporation, legal obligations to shareholders, and an implied contract with the public. It would not be stretching a point too far to say that the managers of a publicly held corporation have promised to strive for profits.

- Even if Kant is wrong about the necessity of pure motivation for an act's being moral, he still has a lot to offer the business ethicist. Working out the implications of the three formulations of the categorical imperative provides a rich agenda for the business ethicist. However, a bit more should be said, especially in light of the fact that the general public judges business from a strict Kantian position.

### **Formulation One: Universalisability**

- One example Kant used to illustrate this was a business one. Suppose you desperately needed money. Should you ask someone to lend you money with a promise to pay the money back but with no intention of paying it back? Do your extreme financial circumstances justify a lying promise? To find out, Kant would require us to universalize the maxim of this action: "It is morally permissible for anyone in desperate financial circumstances to make a lying promise, that is, to promise to repay borrowed money with no intention of doing so." Would such a universalized maxim be logically coherent? Kant answers with a resounding no.
- A business manager who accepts Kantian morality would ask for any given decision, does the principle on which the decision is based pass the test of the first formulation, that is, can it be willed universally without contradiction? If it can, then the decision would be morally permissible. If it cannot, the action is morally forbidden.

### **Rights Theories**

A moral theory based on the concept that all people have human rights that form the justifying basis of obligations because they best express the purpose of morality, which is the securing of liberties or other benefits for a right-holder.

- Human rights are held independent of membership in a state or other social organization.
- Human rights evolved from the notion of natural rights.
  - Natural rights are rights that belong to all persons purely by virtue of their being human.
- Negative rights pertain to the obligations on the part of other people to refrain from interfering with our freedom of action.
- Positive rights impose obligations on people to provide other people with goods or services.
- A primary problem with this theory is that there is no hierarchy for right's claims:

- “How does someone determine which right takes precedence or has more value over other rights?”

According to the theory of moral rights, human beings have certain fundamental rights that should be respected in all decisions: the right to free consent, privacy, freedom of conscience, free speech, and due process (Cavanagh et al., 1981). A right is a capacity, a possession, or condition of existence that entitles either an individual or a group to enjoy some object or state of being. For example, the right to free speech is a condition of existence that entitles one to express one's thoughts as one chooses (Duska, 2002). Rights theories distinguish between negative and positive rights. In the case of negative rights, the duty is to allow the party to act freely within the domain covered by the right. In the case of positive rights, the obligation is to provide the party with a benefit of some type. The moral force of a right depends on its strength in relation to other moral considerations applicable to the context in question (Jones et al., 2007). According to rights theory, as long as the distribution of wealth in society is achieved through fair acquisition and exchange, the distribution is a just one regardless of any degree of inequalities that may ensue (Budd, 2004). The morally correct action is the one that a person has the moral right to do, that does not infringe on the moral rights of others, and that furthers the moral rights of others (Rachels, 1999; Velasques, 1998; Cavanagh et al., 1981; Schumann, 2001).

People who rely on rights theory to reason their actions emphasize the entitlement of individuals (Cavanagh et al., 1981). Restrictions on behavior should prevent harm to others, but unless your actions harm others, you should be free to do as you please. A manager making a decision based on this theory should avoid violating the rights of others who may be affected by the decision (Cavanagh et al., 1981).

## **Virtue Ethics**

This moral theory suggests that morality is comprised of virtue, which has to do with a person's character and the types of actions that emanate from that character.

- Some typical virtuous traits in the business arena would be integrity, honesty, truthfulness, courage, loyalty, courteousness, and conscientiousness.
- Virtuous traits are acquired and developed throughout our life experiences.
- A primary problem with this theory is that people have varying definitions of what traits are considered virtuous.

## **The ethics of care**

The ethics of care emerged out of the feminist literature. Gilligan (1982), Dillon (1992), and others have objected to the impersonal, male-dominated view of ethics that ignores the importance of the special relationship between individuals. The ethics of care is related to virtue theory, but emphasizes virtues that are important to personal relations, such as compassion, sympathy, empathy, and loyalty (Budd, 2004).

The ethics of care argues that a person's moral obligation is not to follow impartial principles but rather to care for the good of the particular individuals with whom the person has concrete

special relationships. Each of us must attend to our own needs as well as to those of the people in our web of relationships, which includes the people with whom we have close relationships as well as those in the larger communities in which we live (Schumann, 2001). According to the perspective of the ethics of care, an ethical dilemma is not an abstract problem with only one ethically correct solution that can be agreed on by impartial observers and by applying universally accepted principles. Rather, solutions should emerge from relationships of mutual care and from the context in which the problems are embedded (Jones et al., 2007).

When applying the ethics of care to business, some situations may be more challenging than others. There may be situations, in which our desire to express care for individuals with whom we have a special relationship conflicts with the care we wish to express for others. For example, a manager making a hiring decision may wish to favor a friend over strangers for the job, but this desire conflicts with the desire to hire the best qualified candidate, which follows from his care for his relationships with other employees, customers, and stockholders of the organization. Managers can resolve the conflict by disqualifying themselves from making a hiring decision that involves a friend (Velasquez, 1998). The ethics of care has received little attention as a normative ethical theory in business ethics research (for examples, see Schumann, 2001; Jones et al., 2007), but there is growing interest in it in business because of the increased interest in the relational aspect of business life.

### Feminist Theories and the Ethics of Care

This moral theory focuses on a set of character traits that are deeply valued in close personal relationships.

- Typical traits would include sympathy, compassion, fidelity, love, friendship, and the like.
- This theory grew out of two feminist presuppositions:
  - The subordination of women is as wrong as it is common.

The experiences of women are worthy of respect and should be taken seriously

- An argument against this theory is that the focus is on how power is used to oppress women only, whereas traditional ethics is based on the assumption that its values and rules apply to all rational persons equally.

### Theory of justice

According to Rawls (1971), under a veil of ignorance, rational, self-interested, and equal individuals will agree that each person is to have an equal right to the most extensive total system of equal basic liberties. Moreover, social and economic inequalities are to be arranged so that they are both to the greatest benefit of the least advantaged, and attached to offices and positions open to all under conditions of fair equality of opportunity (Budd, 2004). In Rawls's opinion, the first virtue of social institutions is justice for the individual and not aggregate welfare. He is concerned more with how the pie is divided than with how large it is. Inequalities are just only if they result in benefits for everyone, with particular emphasis on the least advantaged (Jones, 2007). The theory of justice requires decision makers to be guided by equity,

fairness, and impartiality (Cavanagh et al., 1981). It relies on three types of moral prescriptions: (a) that individuals who are similar in a relevant respect should be treated similarly and individuals who are different in a relevant respect should be treated differently in proportion to the difference between them; (b) that rules should be administered fairly and clearly; and (c) that individuals should not be held responsible for matters over which they have no control, and should be compensated for the cost of their injuries by those responsible for these injuries (Cavanaugh et al., 1981). Decision making and reasoning based on the theory of justice focus on the distributional effect of actions (Cavanagh et al., 1981).

### **Stakeholder Theory and Limitation**

1. Stakeholder theory is an excuse for managerial opportunism: The core claim is that by providing more groups who management can argue their actions benefit, stakeholder theory makes it far easier to engage in self-dealing and defend it than if shareholder theory were the sole purpose.
2. Stakeholder theory is primarily concerned with distribution of financial outputs: This view depicts stakeholder theory as primarily about who receives the resources of the organization, and poses a stark and inherent conflict between shareholders and other stakeholders in terms of who gets what.
3. All stakeholders must be treated equally: Though several versions of what it means to treat stakeholders equally (e.g. egalitarianism; equalitarianism) are offered, the core point is that critics have focused on the notion of treating stakeholders equally, particularly around the language of —balance that has been prominent in discussions of what it means to manage for stakeholders.
4. Stakeholder theory requires changes to current law: Some have argued that the law needs to be changed, either to overcome the concern that doing anything other than shareholder management is illegal or to make it easier to practice stakeholder theory (i.e. making it more transparent that using stakeholder theory to manage does not violate core principles of business law).
5. Stakeholder theory is socialism and refers to the entire economy: Phillips et al (2003), argue that stakeholder theory is first and foremost a theory of organizations, not a theory of political economy. In addition, while there may be some merit in drawing from stakeholder theory to discussions of economies within a political context, doing so makes truly problematic the concerns raised about the breadth of the theory and for what purposes it is being used.
6. Stakeholder theory is a comprehensive moral doctrine: According to Phillips et al. (2003), stakeholder theory is not a comprehensive doctrine. Rather, it is a theory of organizations that does not even cover all the moral questions relevant to a business context, let alone the rest of the moral world.

### **Application of ethical theories**

- Distinguish between unethical and ethical acts.
- Using moral intuition to solve problems
- Approach to ethical decisio



## **PRINCIPLES/VALUES OF BUSINESS ETHICS**

**Ethical principles** are universal standards of right and wrong prescribing the kind of behaviour an ethical company or person should and should not engage in. These principles provide a guide to making decisions but they also establish the criteria by which ones' decisions will be judged by others.

In business, how people judge ones' character is critical to sustainable success because it is the **basis of trust and credibility**. Both of these essential assets can be destroyed by actions which are, or are perceived to be unethical. Thus, successful executives must be concerned with both their character and their reputation.

**Abraham Lincoln** described character as the tree and reputation as the shadow. **Ones' character** is what you really are; **ones' reputation** is what people think of you. Thus, your reputation is purely a function of perceptions (i.e., do people think your intentions and actions are honourable and ethical). while your character is determined and defined by your actions i.e., whether ones' actions are honourable and ethical according to the 12 ethical principles:

**1. HONESTY. Be honest in all communications and actions.** Ethical executives are, above all, worthy of trust and honesty is the cornerstone of trust. They are not only truthful, they are candid and forthright. Ethical executives do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means and when trust requires it they supply relevant information and correct misapprehensions of fact.

**2. INTEGRITY. Maintain personal integrity.** Ethical executives earn the trust of others through personal integrity. Integrity refers to a wholeness of character demonstrated by consistency between thoughts, words and actions. Maintaining integrity often requires moral courage, the inner strength to do the right thing even when it may cost more than they want to pay. The live by ethical principles despite great pressure to do otherwise. Ethical executives are principled, honourable, upright and scrupulous. They fight for their beliefs and do not sacrifice principle for expediency.

**3. PROMISE-KEEPING. Keep promises and fulfill commitments.** Ethical executives can be trusted because they make every reasonable effort to fulfill the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or legalistic manner in order to rationalize non-compliance or create justifications for escaping their commitments.ss

**4. LOYALTY. Be loyal within the framework of other ethical principles.** Ethical executives justify trust by being loyal to their organization and the people they work with. Ethical executives place a high value on protecting and advancing the lawful and legitimate interests of

their companies and their colleagues. They do not, however, put their loyalty above other ethical principles or use loyalty to others as an excuse for unprincipled conduct. Ethical executives demonstrate loyalty by safeguarding their ability to make independent professional judgments. They avoid conflicts of interest and they do not use or disclose information learned in confidence for personal advantage. If they decide to accept other employment, ethical executives provide reasonable notice, respect the proprietary information of their former employer, and refuse to engage in any activities that take undue advantage of their previous positions.

**5. FAIRNESS. Strive to be fair and just in all dealings.** Ethical executives are fundamentally committed to fairness. They do not exercise power arbitrarily nor do they use overreaching or indecent means to gain or maintain any advantage nor take undue advantage of another's mistakes or difficulties. Ethical executives manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity. They are open-minded; willing to admit they are wrong and, where appropriate, they change their positions and beliefs.

**6. CARING. Demonstrate compassion and a genuine concern for the well-being of others.** Ethical executives are caring, compassionate, benevolent and kind. They understand the concept of stakeholders (those who have a stake in a decision because they are affected by it) and they always consider the business, financial and emotional consequences of their actions on all stakeholders. Ethical executives seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.

**7. RESPECT FOR OTHERS. Treat everyone with respect.** Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin. Ethical executives adhere to the Golden Rule, striving to treat others the way they would like to be treated.

**8. LAW ABIDING. Obey the law.** Ethical executives abide by laws, rules and regulations relating to their business activities.

**9. COMMITMENT TO EXCELLENCE. Pursue excellence all the time in all things.** Ethical executives pursue excellence in performing their duties, are well-informed and prepared, and constantly endeavour to increase their proficiency in all areas of responsibility.

**10. LEADERSHIP. Exemplify honour and ethics.** Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.

**11. REPUTATION AND MORALE. Build and protect and build the company's good reputation and the morale of its employees.** Ethical executives understand the importance of their own and their company's reputation as well as the importance of the pride and good morale

of employees. Thus, they avoid words or actions that that might undermine respect and they take affirmative steps to correct or prevent inappropriate conduct of others.

**12. ACCOUNTABILITY. Be accountable.** Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.

## ***ETHICAL DILEMMAS/ ISSUES***

### **Ethics and Human Resource Management**

Business Ethicists differ in their orientation towards labour ethics. Some assess human resource policies according to whether they support an egalitarian workplace and the dignity of labor. Issues such as recruitment, selection, orientation, privacy, and compensation in accord with comparable worth, collective bargaining, performance appraisal, training and development can be seen either as inalienable rights or as negotiable. Discrimination by age (preferring the young or the old), gender / sexual harassment, race, religion, disability, weight and attractiveness. A common approach to remedying discrimination is affirmative action. Potential employees have ethical obligations to employers, involving intellectual property protection and whistle-blowing. Employers must consider workplace safety, which may involve modifying the workplace, or providing appropriate training or hazard disclosure. Larger economic issues such as immigration, trade policy, globalization and trade unionism affect workplaces and have an ethical dimension, but are often beyond the purview of individual companies.

### **Trade unions**

Unions for example, may push employers to establish due process for workers, but may also cost jobs by demanding unsustainable compensation and work rules. Unionized workplaces may confront union busting and strike breaking and face the ethical implications of work rules that advantage some workers over others

### **Ethical Issues in Advanced Accounting and Finance**

Recently, highly publicized accounting scandals have made it clear that ethical conduct of accountants has not met the expected standards. In 2008, financial crisis have caused critics to challenge the ethics of executives in charge of financial institutions and regulatory bodies world wide. Previously, finance ethics was somewhat overlooked because issues in finance were often addressed as matters of law rather than ethics. Fairness in trading practices, trading conditions, financial contracting, sales practices, consultancy services, tax payment, internal audits, and executive compensation all fall under the umbrella of finance and accounting. Specific corporate ethical/legal abuses include creative accounting, earnings management, misleading financial analysis, insider trading, bribery/kickbacks and facilitation payments.

In the article “Scandal Scorecard,”

The Wall Street Journal described 12 egregious accounting frauds involving publicly owned business enterprises; many of the frauds involved the chief financial officer, controller, chief accounting officer, and other accountants of the enterprises.

One outcome of those and other scandals was the enactment of the federal Sarbanes- Oxley Act of 2002 (SOX), which authorized the establishment of a Public Company Accounting Oversight Board to regulate the conduct of accountants both in public practice and in publicly owned business enterprises.

### **WHAT IS FRAUDULENT FINANCIAL REPORTIN**

The following covers misstatements in financial statements that are caused by fraudulent financial reporting, and the reasons for and methods of committing fraud: Misstatements arising

from fraudulent financial reporting are intentional misstatement omissions of amounts or disclosures in financial statements to deceive financial statement users.

Fraudulent financial reporting may involve acts such as the following:

- Manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared
- Misrepresentation in, or intentional omission from, the financial statements of events, transactions, or other significant information
- Intentional misapplication of accounting principles relating to amounts, classification manner of presentation, or disclosure.

Fraud frequently involves the following: (a) a pressure or an incentive to commit fraud and (b) a perceived opportunity to do so.... For example, fraudulent financial reporting may be committed because management is under pressure to achieve an unrealistic earnings target.

Fraud may be concealed through falsified documentation, including forgery. For example, management that engages in fraudulent financial reporting might attempt to conceal misstatements by creating fictitious invoices.

Fraud also may be concealed through collusion among management, employees, or third parties. For example, through collusion, false evidence that control activities have been performed effectively may be presented.

### ***Competence***

Accountants have a responsibility to:

- Maintain an appropriate level of professional competence by ongoing development of their knowledge and skills.
- Perform their professional duties in accordance with relevant laws, regulations, and technical standards.
- Prepare complete and clear reports and recommendations after appropriate analyses of relevant and reliable information.

### ***Confidentiality***

Accountants have a responsibility to:

- Refrain from disclosing confidential information acquired in the course of their work except when authorized, unless legally obligated to do so.
- Inform subordinates as appropriate regarding the confidentiality of information acquired in the course of their work and monitor their activities to assure the maintenance of that <sup>1</sup> confidentiality.
- Refrain from using or appearing to use confidential information acquired in the course of their work for unethical or illegal advantage either personally or through third parties

### ***Integrity***

Accountants have a responsibility to:

- Avoid actual or apparent conflicts of interest and advise all appropriate parties of any potential conflict.
- Refrain from engaging in any activity that would prejudice their ability to carry out their duties ethically.
- Refuse any gift, favor, or hospitality that would influence or would appear to influence their actions.
- Refrain from either actively or passively subverting the attainment of the organization's legitimate and ethical objectives.
- Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.
- Communicate unfavorable as well as favorable information and professional judgments or opinions.
- Refrain from engaging in or supporting any activity that would discredit the profession.

#### Objectivity

Members have a responsibility to:

- Communicate information fairly and objectively.
- Disclose fully all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, comments, and recommendations presented.

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### **RESOLUTION OF ETHICAL CONFLICT**

In applying the standards of ethical conduct, members may encounter problems in identifying unethical behavior or in resolving an ethical conflict. When faced with significant ethical issues, members should follow the established policies of the organization bearing on the resolution of such conflict. If these policies do not resolve the ethical conflict, such members should consider the following courses of action.

- Discuss such problems with the immediate superior except when it appears that the superior is involved, in which case the problem should be presented initially to the next higher managerial level. If a satisfactory resolution cannot be achieved when the problem is initially presented, submit the issues to the next higher managerial level. If the immediate superior is the chief executive officer, or equivalent, the acceptable reviewing authority may be a group such as the audit committee, executive committee, board of directors, board of trustees, or owners. Contact with levels above the immediate superior should be initiated only with the Superior's knowledge, assuming the superior is not involved. Except where legally prescribed, communication of such problems to authorities or individuals not employed or engaged by the organization
- Clarify relevant ethical issues by confidential discussion with obtain a better understanding of possible courses of action. Consult your own attorney as to legal obligations and right concerning the ethical conflict.
- If the ethical conflict still exists after exhausting all levels of internal review, there may be no other recourse on significant matters than to resign from submit an informative memorandum to an appropriate representative of the organization After resignation, depending on the nature of the ethical conflict appropriate to notify other parties

### ***ETHICAL ISSUES IN SALES AND MARKETING***

Ethics in marketing deals with the principles, values and/or ideals by which marketers (and marketing institutions) ought to act. Marketing ethics is also contested terrain, beyond the previously described issue of potential conflicts between profitability and other concerns. ***Ethical marketing issues include marketing redundant or dangerous products/services transparency about environmental risks, transparency about product ingredients such as genetically modified organisms possible health risks, financial risks, security risks, etc.<sup>1</sup> respect for consumer privacy and autonomy, advertising truthfulness and fairness in pricing & distribution.***

According to Borgerson, and Schroeder (2008), marketing can influence individuals' perceptions of and interactions with other people, implying an ethical responsibility to avoid distorting those perceptions and interactions.

Marketing ethics involves pricing practices, including illegal actions such as price fixing and legal actions including price discrimination and price skimming. Certain promotion activities have drawn fire, including green washing, bait and switch, shilling, viral marketing, spam (electronic), pyramid schemes and multi-level marketing. Advertising has raised objections about attack ads, subliminal messages, sex in advertising and marketing in schools.

### ***MARKETING IMPACT ON INDIVIDUAL CONSUMERS***

- High prices:
- High costs of distribution
- High advertising and promotion costs
- Excessive markups
- Deceptive practices:
- Pricing, promotion, packaging, and telephonic fraud
- High pressure selling
- Shoddy or unsafe products
- Planned obsolescence
  - Poor service to disadvantaged consumers

#### **Impact on society**

- Too much political power
- False wants and too much materialism
- Too few social goods
- Cultural pollution

#### **Impact on other Business**

- Acquisition of competitors reduces competition
- Marketing practices create barriers to entry
- High promotional spending
- Abuse of patent protection
- Unfair competitive marketing practices
- Predatory pricing
- Supplier relations

#### **Seller's Versus Consumers' Rights**

- To introduce products of different styles and sizes, provided they are not hazardous
- To set its own prices, provided no discrimination occurs

- To spend to promote the product
- To use any product message, provided it is not misleading
- To use buying incentives

### **Consumers' rights:**

They have rights:

- To choose
- To be informed
- To safety
- To be heard
- To redress
- To consumer education
- To participate in marketplace decision making
- To have access to basic services
- To a sustainable environment

## **ENVIRONMENTALISM**

- Environmentalism:
  - An organized movement of concerned citizens and government agencies
  - To protect and improve people's living environment
- Environmental sustainability:
  - Management approach
  - Develop strategies that both sustain the environment and
  - Produce profits for the company

### **Socially Responsible Marketing**

- Enlightened marketing:
  - Consumer-oriented marketing
  - Innovative marketing
  - Value marketing



- Sense-of-mission marketing
- Societal marketing

#### Ethical Issues Associated with Marketing Practice

##### Marketing research:

- Invalid or unreliable research studies
- Invasion of consumer privacy, not respecting confidentiality
- Disguising sales as research
- Failure to secure voluntary and informed participation

##### -Competitive intelligence gathering

##### Segmentation/target marketing:

- Redlining: discriminating against poor or disadvantaged consumers
- Targeting inappropriate products to vulnerable audiences
- Positioning: Making socially undesirable products more desirable
- Positioning on questionable benefits
- Product: Marketing unsafe products
- Product testing: on animals or insufficient testing to reveal safety concern
- Marketing socially controversial products

##### .Packaging and labelling:

- Actual versus apparent size
- Misleading or inadequate information
- Excessive or environmentally-unfriendly packaging

##### Pricing:

- Collusion with competitors
- Negative option billing
- Prejudice in negotiated prices
- Price discrimination

##### Advertising:

- Sex role stereotyping
- Dehumanizing images and portraying people as products
- Bait-and-switch advertising

##### .Sales and channel management:

- High pressure sales tactics
- Unfairly disparaging competitors' goods
- Channel loading
- High pressure sales tactics
- Unfairly disparaging competitors' goods
- Channel loading

You are considering hiring a product manager who just left a competitor's company. She would be more than happy to tell you all the competitor's plans for the coming year. What do you do?

You have a chance to win a big account that will mean a lot to you and your | company. The purchasing agent hints that a "gift" would influence the decision. Your assistant recommends sending a fine colour television set to the buyer's home. What do you do?

You are interviewing a capable woman applicant for a job as a salesperson. She is better qualified than [the men just interviewed. Nevertheless, you know that some of your important customers prefer dealing with men, and you will lose some sales if you hire her. What do you do?

You are a sales manager in an encyclopedia company. Your competitor's salespeople are getting into homes by pretending to take a research survey. After they finish the survey, they switch to their sales pitch. This technique seems to be very effective. What do you do?

## **PRODUCTION AND OPERATIONS MANAGEMENT AND ETHICS**

*This area of business ethics usually deals with the duties of a company to ensure that products and production processes do not needlessly cause harm. Since few goods and services can be produced and consumed with zero risk, determining the ethical course can be problematic. In some case consumers demand products that harm them, such as tobacco products. Production may have environmental impacts, including pollution, habitat destruction and urban sprawl.* The downstream effects of technologies nuclear power, genetically modified food and mobile phones may not be well understood. While the precautionary principle may prohibit introducing new technology whose consequences are not fully understood, that principle would have prohibited most new technology introduced since the industrial revolution. Product testing protocols have been attacked for violating the rights of both humans and animals

Operations managers, like all managers, have the responsibility to make Ethical decisions. Ethical issues arise in many aspects of operations management, including

- Financial statements: accurately representing the organization's financial condition.
  - Worker safety: providing adequate training, maintaining equipment in good working condition, maintaining a safe working environment.
  - Product safety: providing products that minimize the risk of injury to users or damage to property or the environment.
  - Quality: honoring warranties, avoiding hidden defects.
  - The environment: not doing things that will harm the environment
  - The community: being a good neighbor.
  - Hiring and firing workers: avoiding false pretenses (e.g., (promising a long-term job when that is not what is intended).
  - Closing facilities: taking into account the impact on a community, and honoring commitments that have been made.
  - Workers' rights: respecting workers' rights, dealing with/workers' problems quickly and fairly.
- Many organizations have developed codes of ethics to guide employees' or members' conduct. Ethics is a standard of behavior that guides how one should act in various situations. The Markula Center for Applied Ethics at Santa Clara University identifies five principles for thinking ethically:
- The Utilitarian Principle is that the good done by an action should outweigh any harm it causes. An example is not allowing a person who has had too much to drink to drive.
  - The Rights Principle is that actions should respect and protect the moral rights of others. An example is not taking advantage of a vulnerable person.
  - The Fairness Principle is that equals should be held to, or evaluated by, the same standards. An example is equal pay for equal work.

- The Common Good Principle is that actions should contribute to the common good of the community. An example is an ordinance on noise abatement.

- The Virtue Principle is that actions should be consistent with certain ideal virtues. Examples include honesty, compassion, generosity, tolerance, fidelity, integrity, and self- control. The center expands these principles to create a framework for ethical conduct. An ethical framework is a sequence of steps intended to guide thinking and subsequent decisions or actions. Here is the one developed by the Markula Center for Applied Ethics.

Recognize an ethical issue by asking if an action could be damaging to a group or an individual. Is there more to it than just what is legal?

2. Make sure the pertinent facts are known, such as who will be impacted, and what options are available.

3. Evaluate the options by referring to each of the preceding five ethical principles.

4. Identify the “best” option AND then further examine it by asking how someone you respect would view it

5. In retrospect, consider the effect your decision had and what you can learn from it.

Systematic direction, control, and evaluation of the entire range of processes that transform inputs into finished goods or services.

- It deals with design and management of products, processes, services and supply chain

- Input- HR, capital, materials, land, energy, information, customer -

Transforming-convert inputs into outputs

- Outputs-goods or services, and waste

## **OPERATION MANAGEMENT**

Make efficient use of materials, capacity, and knowledge to achieve output level follow certain specified codes to achieve the desired output levels

- Management of human, technology and system resources

- He also does planning, organizing, directing, staffing, and controlling.

### **Ethical Issues**

- Product safety

- Quality

- Hiring and firing workers

- Workers’ rights

Ethically produced goods are defined as goods produced under conditions of progressive stakeholder relations, advanced environmental practices and respect for human rights

## **MORAL AND ETHICAL ISSUES OF INDIVIDUALS AND SOCIAL RELATIONSHIPS**

**Direct / Indirect effects of acts on both individual and groups**

**Respect for Persons** is reflected in the rights of all to be treated with respect and dignity, and to be allowed to exercise one's rights to privacy or confidentiality, autonomy and self-expression. This principle is violated when one is deceived or secretly surveilled, a promise is not kept, a duty not met, or one is coerced into taking unwanted action or accepting an **unfair** agreement

**Welfare or caring: Beneficence**, refers to the obligation to do good, when feasible. This is often viewed as one of the hallmarks of a profession. For , the preamble to the ethics code of the American Psychological Association (APA) starts "Psychologists are committed to increasing scientific and professional knowledge of behavior and people's understanding of themselves and others and to the use of such knowledge to improve the condition of individuals, organizations *and* society" (APA, 2002, p. 1062; emphasis added).

**Welfare or caring: Nonmaleficence**. The obligation to refrain from unjustifiably causing harm to another is the ethical principle about which there is most agreement Its primacy is indicated, for example, by the following: "When conflicts occur among psychologists' obligations or concerns, they attempt to resolve these conflicts in a responsible fashion that avoids or minimizes harm" (APA, 2002, Principle A, p. 1062). As reflected in legal statutes, penalties and remedies, physical harms are generally thought to be the most severe, followed by economic and psychological or emotional harms, in that order (Collins, 1989). The inclusion of emotional harms serves to widen the category to encompass deontological *wrongs*, as well as material harms.

**Fairness and Justice** is informed by ethical constructs based on the social contract (Donaldson & Dunfee, 1999) and social science concepts of procedural and distributive justice (Biader & Tyler, 2003; Cropanzano, 1993; Cropanzano & Byrne, 2001). It may be defined in Kantian terms at the individual level as each person having an appropriate balance of rights and duties, or at the level of a social system (e.g., organization) by a fair distribution of the system's benefits and burdens among its members. It is known, of course, that the criterion of fairness is culturally influenced by a society's economic and political system (James, 1993)—e.g., *equity* is seen as right and proper from within the culture of U.S. free-enterprise capitalism (i.e., rewards should reflect one's productive contributions to society—what one has "earned"); *equality* is deemed more proper by communal cultures.

**Moral Virtue or Character**, while not an ethical principle per se, calls attention to the attributes of the person who may be called upon to take an action with ethical implications. It invokes traditional moral virtues like truthfulness, integrity and trustworthiness as well as more recently studied attributes such as *moral sensitivity* (Rest 1994) and *moral imagination* (Carroll, 1987; Werhane, 1999). The inclusion of these individual difference dimensions offsets the approach in some quarters of viewing professional ethics as entirely a matter of rational decision-making while neglecting the primary influence of the decision-maker.

Given the incidence of such highly publicized corporate tragedies as those listed at the outset of this essay, much attention has been paid recently by organizational psychology and management scholars (and some practitioners) to the study of what has variously been called *workplace deviance*, *antisocial behavior at work*, *counterproductive* or *dysfunctional workplace behavior* and “the dark side of organizational behavior” (Griffin & O’Leary-Kelly, 2004; Vaughan, 1999). The empirical research has been reviewed comprehensively and the field conceptually integrated by Vardi and Weitz (2004) under the over-arching rubric of *organizational misbehavior* (OMB). What is the relationship of OMB to ethically transgressive acts or *unethical behavior*?

Whereas there is general agreement among moral philosophers, moral psychologists and applied ethicists that there is a defined domain of ethical considerations, the domain of workplace deviance or OMB is defined ad hoc. That is, it is not denoted a priori by the violation of particular principle) or standard(s) of conduct. Its conceptual point of departure is organizational values: OMB is “Any intentional action by members of organizations that defies and violates the shared organizational norms and expectations and/or core societal values, mores, and standards of proper conduct” (Vardi & Weitz, 2004, p. 244). Although societal standards are included in the definition it appears that primacy is given to the violation of organizational over societal expectations. Thus, for example, there are “misbehaviors” that bear no particular societal opprobrium like “attempting to appear incompetent”: and what is even more counter-intuitive, some actions taken against the organization in *defense* of societal/moral standards are also classified as misbehavior, such as whistle-blowing. It would seem advantageous to consider as OMB only those actions occurring in or produced by the organization that violate societal norms and standards like truth-telling. This is the obverse of the approach taken by Robinson and Bennett (1995) who restricted the definition of workplace deviance to the violation of organizational norms only, which then required the acknowledgment of acts which are (organizationally) conforming but unethical as well as those which are deviant but ethical.

## **PRINCIPLES OF DOUBLE EFFECT**

### ***THE DOCTRINE OF DOUBLE EFFECT***

The Doctrine of Double Effect (DDE) holds that in some contexts it is morally permissible to bring about as a foreseen but unintended consequence of bad effect that it would be morally wrong to bring about as a strictly intended consequence. The distinction between merely foreseen and unintended versus foresee and intend consequences can be illustrated with the example of PUNISHING THE INNOCENT. Suppose we know that when we punish convicted criminals, innocent people guilty of no crime are also made to suffer. If we put the guilty offender behind bars, members of the offender's family will be deprived of his love, companionship, financial support, and so on. These consequences can be serious. Perhaps in

some cases we ought to forego punishing some guilty person because of the harm that punishing him would visit on innocent persons. Nonetheless such consequences, though foreseen, are unintended. When we punish the guilty we aim at the punishment of the guilty person's family members neither as a means to our ends nor as an end. We might say that punishing the innocent is not part of our plan. The harm that comes to the innocent is a merely foreseen but unintended consequence of what we do. In contrast, suppose that for some reason the guilty offender is beyond our reach and cannot be punished directly. But his family ties are so close that if we deliberately punished his family members and publicized this fact, the guilty person would suffer just as much as if we put him in prison or gave some equivalent direct punishment. But in this variant case punishing the innocent would be not a merely foreseen but an intended consequence of our action. We aim at punishing the innocent as a means to our goal of punishing the guilty offender. Many people would judge that even if the overall consequences turned out to be the same whether we punished the guilty and caused harm to the innocent as an unintended byproduct or punished the innocent and caused harm to the guilty through punishing the innocent, the two acts are not morally on a par. The structure of the agent's intentions makes a difference to moral assessment. This is the intuition that lies behind the DDE. In contrast, according to consequentiality moral theory, the distinction between intended and merely foreseen consequences does not matter for moral assessment except insofar as the distinction happens to distinguish factors that are consequential for the production of better outcomes. In and of itself, the distinction is unimportant for consequentiality assessment.

**FORMULATION.** The DDE applies when the following conditions hold:

1. The agent chooses an act as a means to achieving a morally permissible goal.
2. Besides the intended good effect of the act, there is another (double) effect. The agent foresees that the act she proposes to do will cause harm.
3. The agent does not intend the bad effect that is foreseen. That is to say, she aims at the bad effect neither as a means to her ends nor as an end.
4. There is due proportion between the good effect the agent's proposed act would achieve and its foreseen unintended consequences. The good that is to be achieved sufficiently outweighs the unintended bad. (In some types of case, due proportion might be satisfied even though the good to be achieved is less than, but not unduly less than, the unintended bad.)

The DDE holds that when these conditions hold, in some contexts it may be permissible to bring about harm as a foreseen but unintended consequence of what one does whereas it would be forbidden to bring about that same amount of harm in otherwise similar circumstances as an intended consequence.

**EXAMPLES OF APPLICATION.** Consider three pairs of examples (from Warren Quinn essay). A. **TERROR BOMBER AND STRATEGIC BOMBER.** The terror bomber deliberately drops bombs on civilians during wartime, in order to terrorize the enemy population and cause the enemy leaders to pursue for peace. The strategic bomber does not aim deliberately at civilian.

## Producers, Distributors, Buyers, sellers

Table 1: Key Ethical Issues in Global Supply Chains		
	Supply chain channel	Ethical issues
	Producers	<ul style="list-style-type: none"> <li>• Fair wages</li> <li>• Working conditions</li> <li>• Child labour , Fair prices</li> <li>• Ecologically sustainable production</li> <li>• Product safety</li> <li>• Disregard of intellectual property rights</li> <li>• Counterfeit</li> </ul>
	Middlemen	<ul style="list-style-type: none"> <li>• Tail share" on wealth creation</li> <li>• Fair treatment / relationship to producers</li> <li>• Discriminatory sales policies</li> <li>• Heavy handed purchasing policies</li> <li>• Exclusive territories</li> </ul>
	Retailers	<ul style="list-style-type: none"> <li>• (Truthful) packaging</li> <li>• Misguiding / incomplete labelling</li> <li>• False advertising</li> <li>• Misleading bargain offer</li> <li>• Ethical positioning</li> <li>• Cause related marketing</li> </ul>
Ir	Consumers	<ul style="list-style-type: none"> <li>• Shoplifting</li> <li>• False complaints</li> <li>• Abuse of sales staff</li> <li>• Disregard of copyright</li> <li>• Willingness to buy non-deceptive counterfeits</li> <li>• Importance of ethical and ecological issues</li> </ul>

## TOPIC 2: THE PRACTICE OF BUSINESS ETHICS

### CORPORATE GOVERNANCE AND STRUCTURE

It is the process by which organizations are directed and controlled. It is about the way in which boards oversee the running of a company by its managers, and how board members are in turn accountable to shareholders and the company.

Corporate Governance- *refers to the processes and structure by which the business and affairs of the company are directed and managed, in order to enhance long term shareholder value through enhancing corporate performance and accountability, whilst taking into account the interests of other stakeholders. Top heads include: CEO, Chair, & Board of directors.*

### **The Board of Directors**

This is elected by the owners to represent their interests in the effective running of the corporation. Elections take place at annual shareholders' meetings, and directors are appointed to serve for specific periods of time. The board is typically made up of inside and outside members- inside members hold management positions in the company, whereas outside members do not.

### **The Audit Committee**

It is staffed by members of the board of directors. The primary responsibilities of the audit committee are to oversee the financial reporting process, monitor internal controls (such as how much spending authority an executive has), monitor the choice of accounting policies and procedures, and oversee the hiring and performance of external auditors in producing the company's financial statements.

### **The Compensation Committee**

It is also staffed by members of the board of directors. The primary responsibility of the compensation committee is to oversee compensation packages for the senior executives of the corporation (such as salaries, bonuses, stock options and other benefits such as, in extreme cases, personal use of company jets). Compensation policies for the employees of the corporation are left to the management team to oversee.

*Task; Illustrate the governance structure of the modern corporation*

## **WORK IN THE CORPORATION**

### **Employee Stakeholders in the changing workforce**

The forces of globalization, deregulation, shareholder activism and information technology continue to influence business practices and processes. Industries and companies are downsizing, restructuring, merging and reinventing their businesses. Mid-level management layers are being pressured, many even diminishing. Functions are being outsourced, off shored, eliminated and replaced by online automation, cheaper international labour and networked infrastructures. Knowledge workers with technological and people skills must manage processes and themselves in cyberspace with speed, efficiency and accuracy.s



Within the context of the ‘digital economy,’ the following changes with employees and professional stakeholders continue to occur;

- An increasing shift to knowledge work, which increases the potential for satisfying work but heightens stress.
- The concept of ‘a job and career for life’ is dead or dying. An employee holds nine jobs by the age of thirty. Professionals are changing careers five to eight times on average during their working lives. Compensation, income and the social distribution of benefits, including healthcare, are pressured by changing national and global economic conditions. Decreases in income are occurring among middle-and low-level professionals, and the gap between upper-and mid-to-low-level income holders is widening.
- Quality of work life is not inherent or guaranteed in the workplace.

Change in the workforce and workplace presents ethical tensions and issues that are as follows;

**a) The aging workforce**

One result of the population growth slowdown is that the number of managerial leadership positions will outstrip available talent. As Baby Boomers age and retire, the number of managerial positions required is predicted to increase by 20% from 2000 to 2010, while U.S demographic projections indicate a drop of 15% in the number of workers aged 35 to 44 (the pool from which these positions are filled) during this period. Older workers will be needed for their skills and experience, and also because of the shortage of younger workers to replace them.

**b) Generational Differences in the Workplace**

These offer challenges to co-workers and managers. Generational analysis looks at differences among world views, attitudes and values of generations of Americans. Large differences in the generations from World War II to the present in the U.S. population have had a substantial influence on government, corporate and workplace policies.

- **GI Generation (born 1901-1925);** This generation Great Depression and served in World War II. Members of this generation are church goers and belong to clubs and professional organizations. They express rugged individualism but are members of many groups. They tend to believe in upward mobility, civic virtue and the American dream.
- **Silent Generation (born 1926-1945);** This generation was too young to fight in World War II. They were influenced by the patriotism and self sacrifice of the GI generation, from whom they did not wish to differentiate themselves. Their dominant principles are allegiance to the law and order, patriotism and faith. The silent generation likes memorabilia such as plaques, trophies and pictures of themselves with important people.
- **Baby Boomers (born 1945-1964);** This is currently the most powerful demographic generation, with 76 million members. They have led and set trends in society. They distinguish themselves from the former generations by assuming debt. Their ‘buy now, pay later’ belief characterizes their instant gratification practices. They can be moralistic, but they question authority and the moral and ethical principles of institutions. They do not ‘join’ or sacrifice personal pleasure for the good of the group or collective. They value health and wellness, personal growth, involvement, public recognition, status

symbols, first class travel upgrades, visible roles such as speaking at an industry trade show, and any type of resort or retreat.

- **Generation X (born 1965-1981);** Known as the ‘baby busters,’ this generation has 41 million members. Sandwiched between the two larger generations, they feel demographically overlooked. They came from a time of high national debt and bleak job markets, and were labelled as the ‘McJob’ generation-a phrase referring to holders of low-level, entry-level jobs. This generation generally believes that they will get less materially than the boomers. Insecurity is a dominant theme for X-ers, who value close friends and virtual families more than material success. They, like the boomers, are also suspicious of institutions. They experience their journey through life as one that changes rapidly and continuously.
- **Generation Y (born 1982-2003);** The millennial generation (or ‘echo boomers’) numbers about 80 million. They spend \$170 billion a year of their parents’ and their own money and comprise one-third of the U.S. population. They have grown up with television, computers, instant messaging and new technologies, just as the boomers grew up with the telephone. Y-ers don’t want to be associated with X-ers, whom they believe are selfish and complaining and the least heroic generation-a bunch of ‘slackers.’ Y-ers started growing up with a strong job market. They are ambitious, motivated, extremely impatient and demanding and have a sense of entitlement.
- **Millennials (Generation Y);** This group is also extremely practical. They welcome clear rules and guidelines and display high levels of trust and optimism. They are keenly aware of current events and are sensitive to their surroundings. They define success in terms of team rather than individual achievement.

### c) Women in the Workforce

A New York-based working women’s organization, released a recent survey, ‘Women in U.S. Corporate Leadership: 2003,’ titled ‘What keeps Women from Reaching the Top?’ The findings showed the top five barriers to be:

- Lack of significant general management or line experience
- Exclusion from informal networks
- Stereotyping and preconceptions of women’s roles and abilities
- Failure of senior leadership to assume accountability for women’s advancement
- Commitment to personal/family responsibilities

In the same study participants cited the following top five success strategies they used to reach the top:

- Exceeding performance expectations
- Successfully managing others
- Developing a style with which male managers are comfortable
- Having recognized expertise in a specific content area
- Taking on difficult or highly visible assignments

*Task: Do you agree with the top five barriers women face to 'get to top' of organizations? If not, what factors do you believe account for the lack of advancement of women to more senior level and corporate board positions?*

#### **d) Mainstreaming Disabled Workers**

Hiring and mainstreaming qualified disabled workers is increasing in importance because of the combined effects of the shrinking and aging of the workforce. Disabilities affect a large percentage of the workforce. There are about 54 million individuals with disabilities nationally. Disabilities are categorized as permanent (e.g physical disabilities), temporary (such as those resulting from injury or stress) and progressive (e.g AIDs, alcohol and drug addiction, cancer). Employers who hire persons with disabilities report they are more likely to be loyal, appreciative to their employers and able to think outside the box.

#### **e) Balancing Work/Life in Families**

A paradigm shift toward a new 'work life' model: As more dual-career and child-rearing couples enter the workforce, conflicts and problems evolve over roles and responsibilities as families cope with workplace demands.

### **Employee and Employer rights and responsibilities**

A right can be understood as 'moral claim.' A right is moral when it is not necessarily part of any conventional system, as are legal rights. A right is a claim because it corresponds with a duty on the part of the person against whom the right is held. For example, I claim that I have a right to be safe in my workplace. I hold this claim against my employer, because the employer has the duty to provide me with this safety. Employee rights are normally based on principles determined by law.

#### **• Employer Responsibilities to Employees**

**Fair wages;** Fair wages are determined by factors such as what the public and society support and expect, conditions of the labour market, competitive industry wages in the specific location, the firm's profitability, the nature of the job and work, laws governing minimum wages, comparable salaries and the fairness of the salary or wage negotiations.

**Safe working environment;** Employers also are obliged to provide workers with safe working environment and safe working conditions. The occupational Safety and Health Administration (OSHA) and federal laws and regulations provide safety standards and enforce employer institution of the company's own safety standards. Employees have a right to know about unsafe working conditions.

**Working conditions that Empower Employees;** Although employers are not required by law to offer employees working conditions that provide meaningful tasks and job satisfaction, doing so can lead to increased performance, job satisfaction and productivity. Employees work most productively when they can participate in the control of their tasks, when they are given responsibility for and autonomy over their assignments, and when they are treated with respect. Quality of Work Life programs that have provided employees with more autonomy, participation, satisfaction and control in their work tasks have demonstrated positive results.

- **Employee Rights and Responsibilities to Employers**

Employees are responsible for fulfilling their contracted obligations to the corporation; for following the goals, procedural rules and work plans of the organization; for offering competence commensurate with the work and job assignments; and for performing productively according to the required tasks. Other responsibilities include timeliness, avoiding absenteeism, acting legally and morally in the workplace and while on job assignments, and respecting the intellectual and private property rights of the employer.

### **Employee Rights in the Workplace**

- ✓ The right not to be terminated without just cause
- ✓ The right to due process
- ✓ The right to privacy
- ✓ The right to know
- ✓ The right to workplace health and safety
- ✓ The right to organize and strike
- ✓ Rights regarding plant closings

Due process is one of the most important underlying rights employees have in the workplace because it affects most of their other rights. Due process refers to the right to have an impartial and fair hearing regarding employers' decisions, procedures and rules that affect employees. As applied in the work place, due process essentially refers to grievance procedures.

Other employee rights and obligations to the employer include:

- ✓ Polygraph and Psychological testing
- ✓ Workplace surveillance
- ✓ Internet use in the work place
- ✓ Dating in the workplace
- ✓ Drug testing and privacy rights
- ✓ Smoking in the workplace
- ✓ The right to organize and form unions

### **Sexual Harassment in the Workplace**

The supreme court ruled in 1986 that sexual harassment is illegal under Title VII of the 1964 Civil rights Act and that when a 'hostile environment' is created through sexual harassment in the workplace, thereby interfering with an employee's performance, the law is violated, regardless of whether economic harm is done or whether demands for sexual favors in exchange for raises, promotions, bonuses and other employment related opportunities are granted.

Sexual harassment has been defined as; unwelcome sexual advances, requests for sexual favors and other verbal or physical conduct of a sexual nature constitute sexual harassment when;

- ✓ Submission to such conduct is made either explicitly or implicitly a term or condition of an individual's employment
- ✓ Submission to or rejection of such conduct by an individual is used as the basis for employment decisions affecting such an individual, or

- ✓ Such conduct has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile or offensive working environment.

The courts have defined sexual harassment as conduct ranging from blatant grabbing and touching to more subtle hints and suggestions about sex. Forms of sexual harassment include the following:

- ✓ Unwelcome sexual advances
- ✓ Coercion
- ✓ Favouritism
- ✓ Indirect harassment
- ✓ Physical conduct
- ✓ Visual harassment

## **Discrimination**

Discriminatory practices in employer-employee relationships include unequal or disparate treatment of individuals and groups. Unequal or preferential treatment is based on irrelevant criteria, such as gender, race, color, religion, national origin or disability. Systematic and systemic discrimination is based on historical and institutionally ingrained unequal and disparate treatment against minorities, the disadvantaged and women.

Examples of contemporary and systemic discrimination in employer-employee relationships are found in practices such as recruitment, screening, promotion, termination, conditions of employment and discharge. These practices are attributed to closed employment systems and practices resulting from seniority systems, 'old boy networks,' and arbitrary job classifications.

- Recruiting procedures that are biased toward certain groups and do not openly advertise to minority groups are discriminatory.

Resolve them, are continually changing and developing.

## **WHISTLE-BLOWING**

**Whistle-blowing** is the decision of an employee to inform officials or the public about a legal or ethical violation. The employee discovers unethical, immoral, or illegal actions at the workplace and has to make a decision about what to do. Is it the right thing to inform someone else about these actions and, if so, how should that be done? Will the whistle-blower be rewarded or punished?

Examples of issues that a whistle-blower might report include

- someone submitting false information on an expense report
- a business that's ignoring hiring procedures for minorities
- a business that's knowingly ignoring workplace safety codes
- a business that's not observing mandated health codes
- Screening practices that exclude certain groups and that use biased tests or qualifications are discriminatory.

- Promotion procedures that have ‘glass ceilings’ (i.e invisible discriminatory barriers to advancement) for women and minority groups are discriminatory.
- Terminating employees on the basis of sex, age, race or national origin is discriminatory.

When an employee discovers evidence of malpractice or misconduct in an organization, he or she faces an ethical dilemma. On the one hand, the employee must consider the ‘rightness’ of his or her actions in raising concerns about this misconduct, and the extent to which such actions will benefit both the organization and the public good. On the other hand, the employee must balance a public duty with a corresponding duty to his or her employer to honour the trust and loyalty placed in him or her by the organization.

A whistle-blower is therefore an employee who discovers corporate misconduct and chooses to bring it to the attention of others.

**Internal whistle-blowing** refers to when an employee discovers corporate misconduct and brings it to the attention of his or her supervisor, who then follows established procedures to address the misconduct within the organization.

**External whistle-blowing** is when an employee discovers corporate misconduct and chooses to bring it to the attention of law enforcement agencies and/or the media.

### **When is Whistle-Blowing Ethical?**

Whistle-blowing is appropriate-ethical-under five conditions:

- ✓ When the company, through a product or decision, will cause serious and considerable harm to the public (as consumers or bystanders), or break existing laws, the employee should report the organization.
- ✓ When the employee identifies a serious threat of harm, he or she should report it and state his or her moral concern.
- ✓ When the employee’s immediate supervisor does not act, the employee should exhaust the internal procedures and chain of command to the board of directors.
- ✓ The employee must have documented evidence that is convincing to a reasonable, impartial observer that his or her view of the situation is accurate, and evidence that the firm’s practice, product or policy seriously threatens and puts in danger the public or product user.
- ✓ The employee must have valid reasons to believe that revealing the wrongdoing to the public will result in the changes necessary to remedy the situation. The chance of succeeding must be equal to the risk and danger the employee takes to blow the whistle.

### **When is Whistle-Blowing Unethical?**

- ✓ If there is evidence that the employee is motivated by the opportunity for financial gain or media attention, or that the employee is carrying out an individual vendetta against the company, then the legitimacy of the act of whistle-blowing must be questioned.

### **TOPIC 3: BUSINESS AND SOCIETY**

An ethical dilemma is a moral problem with potential right or wrong answers. It occurs in business when a business has a decision to make that weighs values and morals against profitability and competitiveness. Suppose you are the manager of a business that has no really good place to dispose of its toxic waste, so the company has been simply dumping it. If you stop dumping it, you will hold up production until you find a proper place to dispose of it. But what if that turns out to be very expensive? Should you inform the business owners that the company is violating an environmental code? Or should you just ignore the problem?

Some ethical dilemmas facing society and business include downsizing of staff, pollution control, disposal of toxic waste, depletion and allocation of scarce resources, cost containment, changes in law and technology, employee rights, discrimination against women and minorities, and product safety.

Resolving ethical dilemmas requires honesty, the ability to work co-operatively, respect for others, pride in one's work, willingness to learn, dependability, responsibility for one's actions, integrity, and loyalty. It may help to respond to the following questions when seeking a resolution:

1. Who will be helped by what you do?
2. Who will be hurt?
3. What are the benefits and problems of such a decision?
4. Will the decision survive the test of time?

The types of ethical dilemmas people encounter in business, and the approaches used to resolve them, are continually changing and developing.

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### **CORPORATE SOCIAL RESPONSIBILITY**

## INTRODUCTION

### *What is CSR?*

While there is no universal definition of corporate social responsibility, it generally refers to transparent business practices that are based on ethical values, compliance with legal requirements, and respect for people, communities, and the environment. Thus, beyond making profits, companies are responsible for the totality of their impact on people and the planet. “People” constitute the company’s stakeholders: its employees, customers, business partners, investors, suppliers and vendors, the government, and the community. Increasingly, stakeholders expect that companies should be more environmentally and socially responsible in conducting their business. In the business community, CSR is alternatively referred to as “corporate citizenship,” which essentially means that a company should be a “good neighbor” within its host community.

Patten 2002, Gray et al. (1996, p. 3) defines corporate social reporting as “the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large.”

The Corporate Social Responsibility (CSR) construct describes the relationship between business and the larger society. An exact *definition* of CSR is elusive since beliefs and attitudes regarding the nature of this association fluctuate with the relevant issues of the day (Pinkston and Archie, 1996). As such, viewpoints have varied over time and occasionally are even oppositional. However, *Milton Friedman* contributed to the creation of a general CSR *theory* by asking questions such as “Should companies take responsibility for social issues?” (Kok et al, 2001, p. 286). He argued that the only social responsibility of business is to increase profits by legal means. Consequently, the use of organizational resources for the larger good, such as donating to charities, is detrimental to firms since it may decrease profitability or increase product prices or both (Pinkston and Carroll, 1996). Critics of this perspective argue that business exists to serve the greater community as well as direct beneficiaries of the company’s operations. **Accordingly, CSR may be defined in general terms as “the obligation of the firm to use its resources in ways to benefit community, through committed participation as a member of society,**



taking into account the society at large and improving its welfare at large independent of direct gains of the company” (Kok et al., 2001, p. 288). Consistent with this approach, Carroll (1999) identified four components of CSR: economic, legal, ethical, and discretionary or philanthropic. The economic component is business’s fundamental responsibility to make a profit and grow. The legal component is their duty to obey the law and to play by “the rules of the game.” The ethical component is their responsibility to respect the rights of others and to meet the obligations placed on them by society that ensure these rights. Finally, the discretionary component involves philanthropic activities that support the broader community. A research paradigm that parallels this perspective is stakeholder theory, whereby business is deemed responsible on such dimensions to specific stakeholder groupings (Maignan and Ralston, 2002). Stakeholders are identified and categorized by their “interest, right, claim or ownership in an organization” (Coombs, 1998, p. 289). While there is some variance in the designation of appropriate clusters, customers, employees, suppliers, and the community are nearly always considered pertinent. Research with U.S. corporations and U.K. firms reveals that companies often report socially responsible behaviors in terms of such specific stakeholder groups (see Robertson and Nicholls, 1996). Hence, stakeholder theory provides a useful framework to evaluate corporate social responsibility through social reporting activities. Corporate social reporting is a method of self-presentation and impression management conducted by companies to insure various stakeholders are satisfied with their public behaviors (Hooghiemstra, 2000; Patten, 2002). Gray et al. (1996, p. 3) defines corporate social reporting as “the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large.”

### **Key drives of CSR**

The rationale for CSR has been articulated in a number of ways. In essence it is about building sustainable businesses, which need healthy economies, markets and communities. The key drivers for CSR are:

(I) **Enlightened self-interest** - creating a synergy of ethics, a cohesive society and a sustainable global economy where markets, labor and communities are able to function well together.

(II) **Social investment** - contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business.

(III) **Transparency and trust** - business has low ratings of trust in public perception. There is increasing expectation that companies will be more open, more accountable and be prepared to report publicly on their performance in social and environmental arenas

(IV) **Increased public expectations of business** - globally companies are expected to do more than merely provide jobs and contribute to the economy through taxes and employment.”

### **WHY DO COMPANIES DECIDE TO GET INVOLVED IN CSR AND HOW DO THEY BENEFIT?**

Today, more and more companies are realizing that in order to stay productive, competitive, and relevant in a rapidly changing business world, they have to become socially responsible. In the last decade, globalization has blurred national borders, and technology has accelerated time and masked distance. Given this sea change in the corporate environment, companies want to increase their ability to manage their profits and risks, and to protect the reputation of their brands. Because of globalization, there is also fierce competition for skilled employees, investors, and consumer loyalty. How a company relates with its workers, its host communities, and the marketplace can greatly contribute to the sustainability of its business success.

The concept of CSR has been transformed during the last decades of 20th Century: it has been progressively rationalized and related to different ambits of business activity. We can define Corporate Social Responsibility (CSR) as the ethical and legal compromises and duties of the enterprise with their groups of interest. These compromises and duties come from the impacts of the enterprise's activity over the social, labour, environmental and human right ambits. (De la Cuesta y Valor, 2003: 7). Therefore, **CSR is referred** “conclusion” to the voluntary integration of social and environmental matters into the businesses, with a long term vision of business; with

doing the right things (ethics in all the ambit of business); with the consideration of people as the most valuable asset of business.

### **Fiduciary Capitalism Theory**

Fiduciary Capitalism Theory of CSR, which leads to shareholder value-oriented management, holds that the only social responsibility of businesses is to make a profit and, in the supreme goal, to increase the company's economic value for its shareholders. Any social goals that companies could engage would be acceptable only if they contributed to the maximization of shareholder share value. This is the theory that underlies traditional neoclassical economic theory, primarily concerned with shareholder utility maximization.

from ethical perspective, Friedman argues that it will be unethical for a corporation to do anything other than deliver profits for which it's investors have entrusted it with their money in the purchase of shares in the corporation. he also stipulate that those profits should be earned "without deception or fraud" he further argued that as an employee of the organization, the manager has an ethical obligation to fulfill his role in delivering on the expectations of his employees.

The Nobel laureate Milton Friedman is the paramount representative of this stream. He wrote, with his wife Rose Friedman: "In such an economy, there is one and only one social responsibility of business- to use resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competitions, without deception or fraud." (Friedman and Friedman, 1962, p. 133)

"The Church acknowledges the legitimate *role of profit* as an indication that a business is functioning well but, profitability is not the only indicator of a firm's condition. It is possible for the financial accounts to be in order, and yet for the people — who make up the firm's most valuable asset — to be humiliated and their dignity offended in fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a *community of persons* who in various ways are endeavoring to satisfy their basic needs, and who form a particular group at the service of the whole of society."

## **ETHICS AND SOCIAL RESPONSIBILITY**

Ethics are talked about frequently and addressed in the news when unethical decisions are found. Sadly, people do not hear about ethics when others are engaging in ethical behavior on a daily basis. Keep in mind that things that are not illegal may be unethical. Ethics are an individual belief system that consists of knowing what is right and wrong. Ethics can vary from person to person. Ethics is in part analyzing decisions, beliefs, and actions.

Within the business context, businesses are expected to have good ethical values and act socially responsible. The problem is that the ethics of a business is a mixture of individual sets of ethics. This is why it is important to have good individuals as employees. It is also equally important that when you go to work somewhere that you feel like you share the values of those you work with. Ethics is not just talking about the right thing. It is doing what is right in every decision that is made.

Social responsibility can be an example of ethical behavior. It is enhancing society in general. However, a business can't afford to go around doing good deeds if there is no potential payoff. If the business were to lose too much money, then it would cease to exist, hurt customers, and leave employees jobless. There are some that argue that social responsibility is shown only when companies go beyond what is optional, and really intend to create a benefit for others besides the company. Additionally, some companies may not benefit from some forms of social responsibility. These businesses should focus on what they do best as a business and give back what they can. Examples of socially responsible behavior range from projects that raise money for research on diseases, raising money for the needy, requiring workers to volunteer within the community, recalling products that may be dangerous, promoting recycling, and offering free services to the disadvantaged.

There are innumerable ethical dilemmas that may arise in a business setting. Some of them are more obvious while some of them are more obscure. There is a simple basis that helps keep decisions in perspective. Businesses should operate in a manner that is legal, profitable, ethical, and within social norms. By being within social norms means that you need to use society to gauge if your decisions are appropriate. Some cultures would define what is ethical

differently from other cultures. Due to the fact that all businesses need to be profitable, sometimes there is an over emphasis on making more money. Social norms should govern what is appropriate to compensate individuals as well as to charge customers. Profit expectations and goals should not require a business to cut corners in an unethical way or to misrepresent or twist facts.

Then where do ethics come from? People begin to develop their internal beliefs from the time they are small children. Factors such as the conditions that an individual grows up in affect the way that they see the world. For example if a child was raised in a household with a lot of violence, they might feel that fighting is okay. The beliefs of the peers around you may influence how you see things. It is human nature to want to belong and some are more apt to give into peer pressure. People have a lot in common with their peers due to similar values in the first place. However, it is hard to find two people that feel exactly the same about every situation. Some people would feel that if they found money that they should be able to stick it in their pocket and keep it. Others would feel as if they should take it to the lost and found area. Keeping money that you find on the ground in a public place is not illegal, but some people would not be able to benefit from a situation while the person who lost it could be potentially found. Powerful situational factors may cause people to compromise their values and resort to measures that they would not normally take. If someone is having financial problems, then they are more likely to steal. An individual that is very angry with another person may have a hard time being objective and fair.

Then why do people engage in unethical behaviors? Many people feel that they won't be caught. An employee that steals a few dollars out of petty cash may eventually result to taking large amounts of cash if they are never caught. Someone with lots of authority may feel like they can cover their tracks by lying to subordinates. Some people are unethical because they can justify what they are doing. If an employee sees other people not being punished for unethical behavior, then they may feel like they should be able to do it to. Some individuals make a poor choice and instead of coming clean about it feel the need to make more choices to cover it up. Once bad decisions are made, they tend to get worse until they are eventually caught. The biggest reason people are unethical is because they feel that they can gain from it, or that they need to hide something that can hurt them.

There are many things that an organization can do to facilitate good ethical behaviors. One of the best things to do is to make sure that the underlying culture of an organization promotes strong values. People should not be punished for coming forward with problems. As a matter of fact, workers should be allowed to communicate problems anonymously. Some organizations have a phone number to call or a suggestion box. Always allow employees to share any ethical concerns with authority above them when there are ambiguities about the right thing to do. Include a code of ethics as a written organization document for employees to read. Develop brochures, mission statements, and other media that express the company beliefs. Higher authorities within the organization should possess the beliefs and demonstrate the values that they want to see their employees have.

Another method for implementing ethical conduct is to make sure that unethical conduct can't occur. The ability to safeguard resources is an important function of internal controls. Examples of internal controls are to make sure that more than one employee works with cash and accounting related materials. This way there is more than one person who knows what is going on and can identify theft. Other methods are to require signatures, to lock up valuables, use security cameras, have employees rotate jobs, and randomly check employee work. The more secure your business is, the less likely that individuals within the organization will make unethical decisions.

### **ETHICAL PROBLEMS/ CHALLENGES IN RELATION TO CSR**

Corporate social responsibility (CSR) means businesses making choices, not only based on profit margins but also the best options for society. This can encompass an area as small as the community surrounding the business, the country associated with the business or even global social responsibility. When thinking in terms of social responsibility, ethical problems inevitably arise. From an ethical standpoint, these considerations are subjective, leading to debate over the choices you make as a company.

## **1. Financial Concerns**

- Doing good deeds and helping the community often times costs money. This can still turn a profit for a company as the positive press can increase business and potential revenue. The company must weigh the overall expenditures even if it is willing to accept a loss for some of the community work. The business maintains an ethical responsibility to its shareholders and employees to be as successful as possible in order to ensure the security of the business long term. This is where the social financial responsibility gets murky. The benefits and costs must be analyzed to determine how much money the business can afford to pump into the community to fulfill a social obligation.

### **Social Norms**

- Because individual ethical codes vary greatly, businesses must find an identity, and this is usually by weighing the standard social norms. This keeps the company away from hot button issues and helps to provide a structure for business activity. It also outlines an ethical form of involvement with society yet steers away from offending potential consumers. While these are standard practices, other companies have increased success by tying in with a particular social cause or cultural phenomenon. In these cases the company should work to ensure the involvement is genuine and a part of the charter or mission to define its goals. Some companies work from a particular religious background, whereas others make improving education a goal. Sometimes these goals include donating portions of profits to social causes that the business has deemed worthy.

### **Environmental Responsibility**

- A growing concern for corporate social responsibility has been the treatment of the environment, especially those that manufacture or create goods. While the

governments of areas tend to make the rules, companies can choose to hold a higher standard. This oftentimes gives a good face to the public and might increase business. Other issues include not doing business in countries where manufacturing is causing damage to the environment. While the transition to becoming a "green" company might require an initial investment, it is socially responsible, ethically sound and in the long run might end up saving significant amounts of money.

### **Labor Markets**

- Business continues to flee the United States due to the strict labor laws in place and the increase in the cost of workers due to the cost of living. It is much more economical to farm work out to locales where wages are lower. This has developed into an ethical issue of corporate social responsibility. While the profit margins might be greater if the labor is outsourced, many analysts believe companies need to look at the long-term effects of such moves as they might increase profits now; but if people can no longer afford your products, in time this move could damage the company and even put it out of business. Labor unions and the business world need to work together to ensure sustainability of the market for the overall success of society as well as the company.



## **THE MAJOR ARGUMENTS FOR SOCIAL RESPONSIBILITIES BY BUSINESS**

1. Public expectations: Social expectations of business have increased dramatically since the 1960s. Public opinion in support of business pursuing social as well as economic goals is now well solidified.
- 2) Long run profits: Socially responsible businesses tend to have more and secure long run profits. This is the normal result of the better community relations and improved business image that responsible.
- 3) Ethical obligation: A business firm can and should have a conscience. Business should be socially responsible because responsible actions are right for their own sake.
- 4) Public image: Firms seek to enhance their public image to gain more customers, better employees, access to money markets, and other benefits. Since the public considers social goals to be important, business can create a favorable public image by pursuing social goals.
- 5) Better environment: Involvement by business can solve difficult social problems, thus creating a better quality of life and a more desirable community in which to attract and hold skilled employees.
- 6) Discouragement of further government regulation: Government regulation adds economic costs and restricts management's decision flexibility by becoming socially responsible, business can expect less government regulation.
- 7) Balance of responsibility and power: Business has a large amount of power in society. An equally large amount of responsibility is required to balance it. When power is significantly

greater than responsibility, the imbalance encourages irresponsible behavior that works against the public good.

8) Stockholder interests: Social responsibility will improve the price of a business's stock in the long run. The stock market will view the socially responsible company as less risky and open to public attack. Therefore, it will award its stock a higher price earnings ratio.

9) Possession of resources: Business has the financial resources, technical experts, and managerial talent to provide support to public and charitable projects that need assistance.

10) Superiority of prevention over cures: Social problems must be dealt with at sometime. Business should act on them before they become serious and costly to correct and take management's energy away from accomplishing its goal of production goods and services.

## **THE MAJOR ARGUMENTS AGAINST THE ASSUMPTION OF SOCIAL RESPONSIBILITIES BY BUSINESS**

1) Violation of profit maximization: This is the essence of the classical viewpoint. Business is most socially responsible when it attends strictly to its economic interests and leaves other activities to other institutions.

2) Dilution of purpose: The pursuit of social goals dilutes business's primary purpose: economic productivity. Society may suffer as both economic and social goals are poorly accomplished.

- 3) Costs: Many socially responsible activities do not pay their own way. Someone has to pay these costs. Business must absorb these costs or pass them on to consumers in higher prices.
- 4) Too much power: Business is already one of the most powerful institutions in our society. If it pursued social goals, it would have even more power. Society has given business enough power.
- 5) Lack of skills: The outlook and abilities of business leaders are oriented primarily toward economics. Business people are poorly qualified to cope with social issues.
- 6) Lack of accountability: Political representatives pursue social goals and are held accountable for their actions. Such is not the case with business leaders. There are no direct lines of social accountability from the business sector to the public.
- 7) Lack of broad public support: There is no broad mandate from society for business to become involved in social issues. The public is divided on the issue. In fact, it is a topic that usually generates a heated debate. Actions taken under such divided support are likely to fail.

### **CSR Principles**

CSR companies believe that it is important for businesses to be socially responsible to their employees, their customers, and their communities. These are the companies that actively support community projects, that provide money for children's sports teams, or that develop innovative programs to keep their employees happy and healthy.

Businesses that practice CSR make every effort to support their beliefs by adhering to the following CSR principles.

1. Providing a safe and healthy work environment  
A business could choose to invest in an employee wellness program that offers on-site daycare or fitness facilities.
2. Adopting fair labour policies

A business could choose to pay more than minimum wage and offer flexible hours of employment for workers.

**3. Avoiding price discrimination**

A business could base its pricing structure on one price, such as the manufacturer's suggested list price, to avoid confusing consumers.

**4. Donating to charity**

A business could make it easy for employees to contribute to charities through payroll plans, and could host an event that donates proceeds to charitable causes in the community

**5. Protecting the Environment**

A business could help fund environmental programs in their community and could themselves become more environmentally responsible.

**6 Being truthful in advertising**

A business could ensure that their advertising does not contain inaccurate or deceptive claims, statements or illustrations

**Principles for Company Stakeholder Responsibility**

- 1.** Bring stakeholder interests together over time.
- 2.** Recognize that stakeholders are real and complex people with names, faces and values.
- 3.** Seek solutions to issues that satisfy multiple stakeholders simultaneously.
- 4.** Engage in intensive communication and dialogue with stakeholders not just those who are “friendly”.
- 5.** Commit to a philosophy of voluntarism—manage stakeholder relationships yourself, rather than leaving it to government.
- 6.** Generalize the marketing approach.
- 7.** Never trade off the interests of one stakeholder versus another continuously over time.
- 8.** Negotiate with primary and secondary stakeholders.
- 9.** Constantly monitor and redesign processes to better serve stakeholders.
- 10.** Act with purpose that fulfills commitments to stakeholders.  
Act with aspiration toward your dreams and theirs

## **Business Ethics and the Natural Environment**

### **Business Ethics Revisited**

Business ethics considers the ethical relationship between businesses and consumers, between businesses and their employees. It also considers the impact of globalization on the environment, and on society at large. Ethicists do not always agree about the purpose of business in society – some see the main purpose of business is to maximize profits for its owners or its shareholders. In this case, only those activities which increase profits are to be encouraged as this is the only way that companies will survive –this was the view of the economist Milton Friedman. Others consider that businesses have moral responsibilities to their stakeholders; including employees, consumers, the local community and even society as a whole. Other ethicists have adapted social contract theory (based on the ideas of John Rawls in his *A Theory of Justice*) to business, so that employees and other stakeholders are given a voice as to how the business operates. However, this view is criticized as businesses are property, not means of distributing social justice. Times have changed, however, and ethics in business and corporate social responsibility are becoming crucial. There are many reasons for this, driven by the social, political and economic developments in the world. Consumers have shown their dissatisfaction through taking to the streets, and there have been riots from Genoa to Seattle, bring together many different types of activists and protestors campaigning on a variety of business related issues from globalization and human rights to third world debt. Stakeholders, and especially consumers, are becoming increasingly empowered and vocal, forcing businesses to review their strategies.

### **Environmental Ethics**

Environmental ethics considers the ethical relationship between people and the natural world and the kind of decisions people have to make about the environment:

- Should we continue to cut down the rain forests for the sake of human consumption?
- Should we continue to manufacture petrol-driven cars when we have the technology to make cars which do not pollute the environment?
- Should we knowingly cause the extinction of other species?
- What are our environmental obligations to future generations?
- Should humans be forced to live a simpler lifestyle in order to protect and preserve the environment?

Most people recognise that our planet is in a bad way and we all seem to have an opinion on environmental issues, such as climate change or the use of four-wheel drive cars in cities. The importance of environmental ethics is brought home daily by the news of global warming and its effect on our lives, both now and in the future. There has been a rapid growth in knowledge and technology, so that humans now face choices we have never had to face before that affect the continuation of humanity and the world within which we live. Environmental ethics has grown in importance in our times because to make no decisions about environmental issues is to decide in favour of the status quo, and that, we are told, is no longer an option. However, there is no agreed ethics for environmental issues, and no international environmental code. Environmental ethics simply tries to answer the questions of how humans should relate to their environment, how we should use the Earth's resources and how we should treat other species, both plant and animal, but there are also those who are of the opinion that constant change is simply a fact of this planet and the planet will readjust to new conditions as it did in the past. There are

differences among scientists as to the exact cause and nature of environmental problems and how to solve them, and so there are differences in the approaches to environmental ethics; some think the traditional forms of ethical thought are good guides and some that these traditional forms (at least in the West) are too human-centred. There are also the views of Christians and other religious believers who have a particular take on their role and responsibility towards the natural world.

## **Applying Ethical Theories to the Environment**

### **Utilitarianism**

Utilitarianism is not a single theory, but more of a family of theories with different variations. Some utilitarian approaches are more useful than others when applying them to environmental issues. As may be seen from the different approaches to the environment examined already in this chapter, many are based to some extent on Utilitarianism. Since it is clear that destroying the environment will bring long-term harm to all species, including humans, utilitarians will weigh up the long-term harm against the short-term gain made from exploiting natural resources. Quantitative Utilitarianism looks at a situation and weighs up whether the moral course of action is the maximisation of higher pleasures for present and future generations. So, for example, when in the Lake District there was a proposal to impose a 10mph speed limit on Windermere, a lake that lies within the National Park, a designated area of peace and tranquillity, but which is much used by power-boat enthusiasts and water-skiers, whose activities contribute substantially to the local economy, Bentham would weigh up the amount of pleasure and pain of all those involved. However, the assumption that pleasure is a uniform feature of different types of experience, and simply varies according to how much there is, is question-able. Modern utilitarians would use a cost-benefit analysis, and this was the approach of David Pearce's *Blueprint for a Green Economy*. Applying this approach to Windermere, it is easy to assess the economic benefit of some of the elements in the situation: power boating brings money into the area. But how can this be weighed against the loss of tranquillity? Environmental economics would say that tranquillity is also of value and it is simply a case of determining the strength of preferences for it – but is money an appropriate measure of environmental goods? And do people's preferences accurately reflect what is good for them? Should the fate of the environment be dependent on human preferences? In addition, we never know the final result of our actions. What may seem to be to the advantage of the environment now may in the long term prove to be harmful. It is worth noting the approach of qualitative Utilitarianism; Mill puts the enjoyment and study of nature at the top of his list of higher pleasures – and therefore environmental preservation is imperative. Preference Utilitarianism considers that the moral course of action is the maximisation of preference satisfaction for the current generation. Assuming that neglecting the environment has no major effect on the current generation, then the case for preserving the environment is weak. In *Practical Ethics*, Peter Singer uses the example of building a hydro-electric dam across a gorge that would create employment, stimulate economic growth and provide a cost-effective energy supply but have associated costs. Such costs would include the loss of a beauty spot favoured by walkers and a good place for white-water rafting and the destruction of the habitat of some endangered species and wildlife. For the preference utilitarian, the preference satisfaction of a cheap source of electricity would outweigh the preferences of the walkers and the white-water rafters, as well as those of the animals and plants. However the qualitative utilitarian would consider the long-term interests of future generations.

## **Kantian Ethics**

Kant's ethical theory is generally seen as anthropocentric, based on the idea that rational nature alone has absolute and conditional value. It may seem that a theory of this kind would allow the exploitation of the natural world; if only rational nature counts as an end in itself, then everything else may be used as a means to an end. However, Kant denies that domestic animals are only to be treated as tools and insists that there are moral limits on how we should use them. Animals should not be worn out and over-worked, nor should they be cast aside once they are too old. Kant thinks it is all right to kill animals for food, but killing for sport he sees as morally wrong. Kant also thinks that we have moral duties regarding the natural world and must not destroy it. This seems at odds with Kant's statements that we only have duties towards rational beings, but he explains that treating animals or the natural world badly makes us into cruel and callous people who will then treat other people badly. People who torment animals are likely to do the same to humans, according to Kant. So cruelty towards animals would not be condemned in its own right, but due to its consequences for humans it should be considered intrinsically wrong. According to Kant, a person cannot have good will unless he shows concern for the welfare of non-rational beings and values the natural world for its own sake. As well as this approach we can also consider the first formulation of the categorical imperative – that of making a maxim into a universal law. This would forbid much of the exploitation and pollution of the natural world, as it would be illogical to want everyone to be able to act so. The neo-Kantian Paul Taylor takes the view that respect for nature is a universal law for all rational beings – but he would not go so far as to accord animals and plants moral rights; instead he suggests giving them legal rights so that they are protected.

## **Virtue ethics**

Environmental ethics seeks to examine human relationships within the natural world. As we have seen, in the past the emphasis has been on anthropocentric theories based more on duty and consequences, which has led to environmental ethics being somewhat unbalanced. Environmental Virtue ethics is a new approach which attempts to meet the challenge of a non-anthropocentric theory of values which looks at our relationship with the natural world more objectively. Environmental Virtue ethics does not ask why environmental preservation is important for humanity, but what characterises an environmentally good person. It shifts the emphasis from duty and consequences to who we are and how we are to live in the natural world. Environmental Virtue ethics sees a virtuous life in nature as a necessary condition of human flourishing, *eudaimonia*. Extremes of behaviour are unhelpful both for society and the environment. Virtue ethics also looks at examples of virtue to follow and might look at the example of people such as Rachel Carson and Aldo Leopold.

## **Task**

***'Utilitarianism is the best approach to environmental issues.'* Discuss.**

In your answer to this question you will need to explain the main principles of Utilitarianism and how they might be applied to the environment. It would be better to concentrate on one or two environmental issues such as pollution or global warming or your essay may tend to be too much about environmental issues and not enough about ethical theories. You will need to examine what is included in the greatest good principle— just humans or also animals and plants? You will need to consider the different forms of Utilitarianism to come to a conclusion about its

usefulness. However, you also need to ask if it is the ‘best’ approach and this means contrasting it with other approaches.

### **The Role of the Government**

The following roles are played by the government in business.

- a. Regulatory Role
- b. Entrepreneurial Role
- c. Promotional Role
- d. Planning Role

### **Ethics and Technology**

#### **The concept of technology**

Technology is the basis for improving on the past and creating the future. Banks (1994, p.114) refers to concepts in design and technology in three dimensions: Design and technology knowledge, Design and technology skills and Values/Attitudes. The term technology has further been given various definitions by previous literatures. According to Kumar *et al.*, (1999) technology consists of two primary components:

- 1) A physical component which comprises of items such as products, tooling, equipments, blueprints, techniques, and processes; and
- 2) The informational component which consists of know-how in management, marketing, production, quality control, reliability, skilled labour and functional areas.

The earlier definition by Sahal (1981) views technology as ‘configuration’, observing that the transfer object (the technology) relies on a subjectively determined but specifiable set of processes and products. The current studies on the technology transfer have connected technology directly with knowledge and more attention is given to the process of research and development (Dunning, 1994). By scrutinizing the technology definition, there are two basic components that can be identified: 1) ‘knowledge’ or technique; and 2) ‘doing things’. Technology is always connected with obtaining certain result, resolving certain problems, completing certain tasks using particular skills, employing knowledge and exploiting assets (Lan and Young, 1996). The concept of technology does not only relate to the technology that embodies in the product but it is also associated with the knowledge or information of its use, application and the process in developing the product (Lovell, 1998; Bozeman, 2000).



## **Business Ethics and the Activities of the Multinationals**

A company that operates in many countries is called a multinational corporation (MNC). MNCs often adopt the approach encapsulated in the motto “Think globally, act locally.” They often adjust their operations, products, marketing, and distribution to mesh with the environments of the countries in which they operate. Because they understand that a “one-size-fits-all” mentality doesn’t make good business sense when they’re trying to sell products in different markets, they’re willing to accommodate cultural and economic differences. Increasingly, MNCs supplement their mainstream product line with products designed for local markets. When such companies as Samsung, Nokia and Motorola design cell phones, they’re often geared to local tastes in colour, size, and other features.

### **The Specificity of International Business Ethics**

Business ethics is an important part of the education of any manager, but managers with responsibility for foreign operations are confronted with many ethical issues that do not arise in domestic business. The distinctive ethical problems of international business are due to many factors, including: different ethical traditions and political and legal systems, diverse forms of economic organization and different levels of economic development, inadequate or ineffectual regulation, especially in less-developed countries, conflicts between national and regional economic and political interests, a lack of background institutions and guidelines for international business, the scope and power of multinational corporations and their ability to evade regulation, and pervasive corruption in some parts of the world. Companies today are facing multiple challenges that go beyond the traditional objectives of running a profitable business, serving shareholder interests, meeting the needs of consumers and providing a fair wage and good working conditions for employees. Increasingly, companies are responding to these challenges by means of explicit business principles that set out their commitment to act as responsible members of society in the way they conduct their business. When establishing these principles - whether formally expressed or an unwritten part of the corporate culture - companies need above all to maintain a balance between economic responsibilities to customers, employees and shareholders and their responsibilities as global citizens and members of the local communities in which they operate. One reason why companies are increasingly being pressed to solve problems outside their economic area is that they are rightly seen as contributors to the positive aspects of globalization. Research by various international organizations on the activities of multinational corporations has found that they have contributed to raising standards in the countries in which they operate. Above all, business must demonstrate that:

- global economic development is the best way to increase prosperity within and among countries and create opportunities for millions of people, especially in the developing world, to secure a decent life for themselves and their children;
- Companies most effectively establish their credentials of good corporate citizenship by applying their own principles of corporate conduct. These may take the form of formal codes or unwritten values and internal monitoring, appraisal and reporting procedures that guide corporate operations.

## **Codes of Conduct for Multinationals**

Codes of Conduct or Guidelines for Multinationals do not have any fixed definition. These codes are not of the companies' own making, nor are they agreements between companies and the entities which create the codes. In some cases, however, multinationals are involved in the drafting process. The fact that these codes are externally established standards while other corporate codes of conduct are of a voluntary and internal nature has important implications when considering their implementation in corporate practice. The value of such codes is in: setting minimum standards and raising the level of general multinationals behaviour, raising consciousness about the need for standards and in providing guidance for laws that can be adopted at the national level. Most intergovernmental guidelines for multinational corporations emerged in the 1970s. In the early 1970s, multinational enterprises were widely criticized for their behaviour in developing countries. Host governments and labour organizations claimed that these corporations failed to operate in harmony with local economic, social and political objectives. A number of interrelated developments – decolonialization, new movements and organizations of developing countries – provided the background for these criticisms. The mood to define a social purpose for multinational companies and control their activities was symbolized by the 1974 United Nations' resolution advocating a New International Economic Order and by the Report of the Group of Eminent Persons, which was convened by the United Nations' Economic and Social Council to report on the regulation of multinational companies. The Report gave rise to negotiations on a United Nations Draft Code on Multinational Companies. In response to pressure from developing countries and human rights groups, several international organizations developed ethics guidelines addressing the conduct of multinational companies. In 1976, the OECD (Organization for Economic Cooperation and Development) adopted its "Declaration on International Investment and Multinational Enterprises". The Declaration constitutes a political commitment, adopted by the governments of OECD member states, to facilitate direct investment among OECD members. The Declaration contains the "OECD Guidelines for Multinational Enterprises", which deal with general policies, information disclosure, competition, financing, taxation, employment and industrial relations, the environment and science and technology. All of these requirements are voluntary. Multinationals are recommended to adhere to these guidelines. Member states, on the other hand, are obliged to treat multinationals on a basis equal to that of their own national companies and to the restriction of investment incentives and restrictions. The code is aimed specifically at improving the climate for investment and to put an end to discrimination against multinationals. In 1977, the "International Labour Organization (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises" was issued. The principles cover multinationals activities related to labour markets, such as employment, conditions of work and life, industrial relations, consultation, examination of grievances and settlement of industrial disputes. This code is voluntary, despite efforts by unions and developing countries to make it binding. In relation to multinationals, these codes of conduct are recommendations. Even if the codes have been agreed by a number of sovereign states or such over entities as have been granted international personality by sovereign states, they do not have a status of international law, which would set a binding effect on multinationals operating in those states which have adopted or joined the code. Hence, codes of conduct for multinationals impose no legal, but only moral obligations on companies. Codes of conduct for multinationals may address any issue relevant to their activities. Codes have in fact addressed a wide variety of issues, including: relations between multinationals in world markets (with regard to advertising, marketing, sponsorship and

competition in general), labour markets (terms and conditions of work and equality), environmental standards (emissions, waste or safety in production and transportation) and health and safety issues related to individual products (toys, baby milk substitutes and other products). These codes of conduct can take various forms. Their credibility depends on three main factors: the governments that have adopted them or companies that have subscribed to them (in number, size or nationality), the nature of the substantive provisions of the code and any related monitoring mechanism (such as investigation methods, reporting on investigation result and dissemination of reports).

### **Bribery**

Look for the causes and effects of corruption in Kenya. What measures can be put in place to curb this?

## TOPIC 4: MANAGING BUSINESS ETHICALLY

### BUILDING AN ETHICAL CLIMATE

How can the strategic leaders of an organization build an ethical climate? Andrews suggests a number of steps that foster corporate ethics. First are the actions of the strategic leadership and the way they deal with ethical issues. The pattern of top leaders' behavior determines organizational values. A second step is to make explicit ethics policies. Ethical codes are one common example. The next step is to increase awareness of how to apply those ethical codes. Training on how to deal with situations with an ethical dimension, and how to anticipate situations that involve ethical choices, can go a long way toward ethical institutional practices.

Another step to increase the salience of ethics is to expand the information system to focus on areas where ethics may come into play. Knowing what actually is going on in the organization is essential to understanding the ethical principles which govern behavior. The information system should also support ethical behavior, and allow the strategic leader to know when or where there are potential ethical breaches so that corrective action can be taken. The real danger is that when unethical behavior is unnoticed, or not punished, members will assume it is condoned by the organization's leadership.

Establishing moral principles means determining the core values which should guide the organization. O'Brien suggests four considerations: localness, merit, openness, and leanness. By localness, he means adopting a philosophy of pushing power down to the lowest level possible, and encouraging initiative and autonomy. By merit, he means directing actions toward the overall goals of the organization, and what is best for all. By openness, he means being forthright and honest in all dealings. And by leanness, he means efficient use of resources and economies when possible.

***ULTIMATELY, THE QUEST FOR ORGANIZATIONAL TRANSFORMATION MUST BEGIN WITH A PERSONAL COMMITMENT WITHIN EACH INDIVIDUAL TO PURSUE MORAL EXCELLENCE.***

Encouraging leaders to pursue their own moral development is critical at higher levels because strategic leaders set the moral climate for the organization. O'Brien believes that moral development is even more important than professional development. "Creating a culture based on moral excellence requires a commitment among managers to embody and develop two qualities in their leadership: virtue and wisdom." However, creating an organization characterized by moral excellence is a lengthy process. It involves changing organizational culture.

