

# **INDIVIDUAL FACTORS: MORAL PHILOSOPHIES & VALUES**

**5**  
**CHAPTER**

## **PPOINTS DISCUSSED IN THIS CHAPTER**

- 5.1. Moral Philosophy Defined
- 5.2. Moral Philosophies
- 5.3. Applying Moral Philosophy to Ethical Decision
- 5.4. Cognitive Development
- 5.5. White-Collar Crime
- 5.6. Role of Individual factors in Business Ethics

## 5.1. MORAL PHILOSOPHY DEFINED

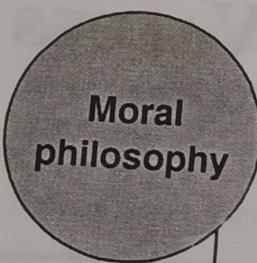
### What is Moral Philosophy?

- ◆ Moral philosophy is the branch of philosophy that contemplates what is right and wrong.
- ◆ It explores the nature of morality and examines how people should live their lives in relation to others.
- ◆ It refers in particular to the specific principles or rules that people use to decide what is right or wrong.
- ◆ A moral philosophy is a person's principles and values that define what is moral or immoral.
- ◆ Making decisions requires a person to evaluate the "rightness", or morality, of choices in terms of his own principles and values.
- ◆ While taking decision related to business ethics and resolving ethical dilemma, person is guided by his moral philosophy.

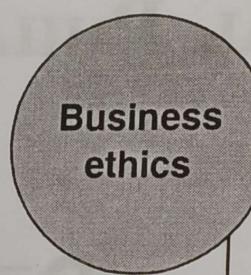
### Philosophy

Philosophy is the study of general and fundamental questions about existence, knowledge, values, reason, mind, and language. Such questions are often posed as problems to be studied or resolved.

It is general system of values by which people live.



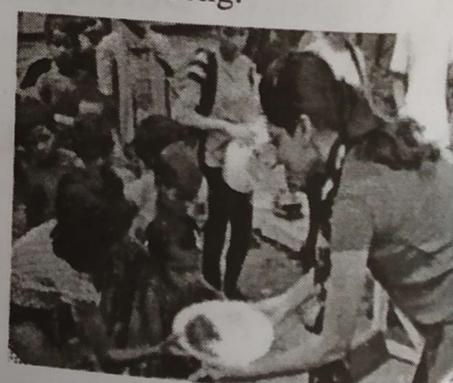
It pertains to the overall guiding belief system behind the individual's perception of right or wrong.



It demand that a company examines its behavior towards the outside world. It takes into consideration morality, ethical reasoning and ethics application.

### Moral Philosophy - Business Ethics

- ◆ There is no single moral philosophy that everyone accepts.
- ◆ Moral philosophies bring people together in a cooperative, efficient, and productive marketplace.
- ◆ Individual moral philosophies are often used to **justify decisions or explain actions**. People who face ethical issues often base their decisions on their own values and principles of right and wrong.
- ◆ Moral philosophies are ideal moral perspectives that provide individuals with abstract principles for guiding their social existence. **For example**, individuals' decisions to donate waste and surplus foods after party to poor people living on road side are influenced by his moral philosophies, his attitudes toward poor people and food. But it is not possible to apply individual moral philosophies in complex corporate culture.
- ◆ At the same time, while working in company or in team, all persons are not considering your moral philosophy. While dealing with ethical issue, he is not considering his individual moral philosophies on several occasion.
- ◆ Individuals learn decision making approaches/philosophies through their **cultural and social development**.
- ◆ Theories associated with moral philosophies are as under:
  - Economic value orientation
  - Idealism, and
  - Realism



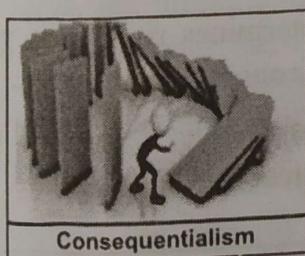
|                            |  |
|----------------------------|--|
| Economic value orientation | <ul style="list-style-type: none"> <li>is associated with values that can be quantified in monetary terms.</li> <li>According to this theory, people may justify their action as ethical if an act produces more monetary value than its effort.</li> </ul>  |
| Idealism                   | <ul style="list-style-type: none"> <li>is moral philosophy that places value on ideals as products of the mind.</li> <li>It refers to the efforts required to account for all objects in nature and experience and to assign to them to a higher order of existence.</li> <li>Research shows positive correlation between idealistic thinking and ethical decision making.</li> </ul>  |
| Realism                    | <ul style="list-style-type: none"> <li>is the view that an external world exists independent of our perception of it. Realists work under the assumption that human is not inherently benevolent and kind.</li> <li>Human is inherently self-centered and competitive.</li> <li>According to realists, each person is always ultimately guided by his own self-interest.</li> <li>Research shows a negative correlation between realistic thinking and ethical decision making.</li> </ul> |

Following table indicate theme of above theories in brief:

| Theory                     | Main idea of theory |
|----------------------------|---------------------|
| Economic Value Orientation | “Monetary value”    |
| Idealism                   | “What could be”     |
| Realism                    | “What actually is”  |

## 5.2. MORAL PHILOSOPHIES

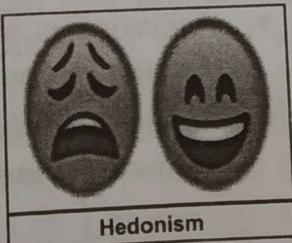
For individuals, the ethical theory they employ for decision making guidance emphasizes aspects of an ethical dilemma important to them and leads them to the most ethically correct resolution according to the guidelines within the ethical theory itself. Several categories of moral philosophies (ethical theories and concept) are discussed hereunder :



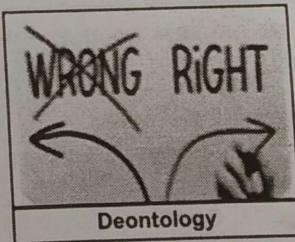
Consequentialism



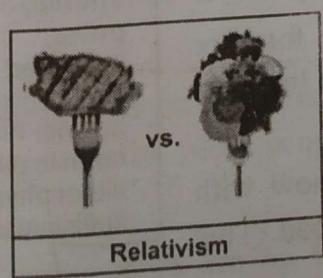
Utilitarianism



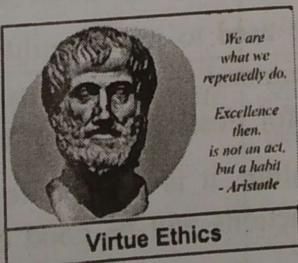
Hedonism



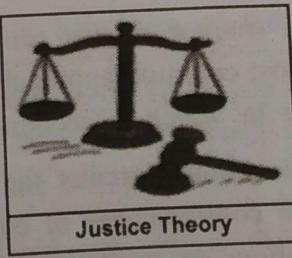
Deontology



Relativism



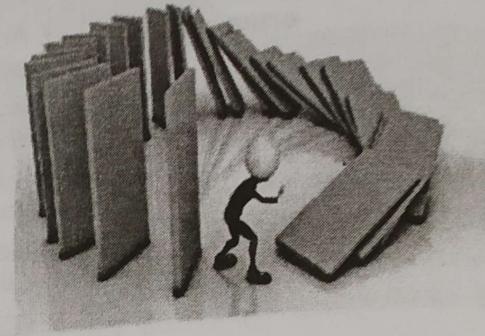
Virtue Ethics



Justice Theory

## Consequentialism

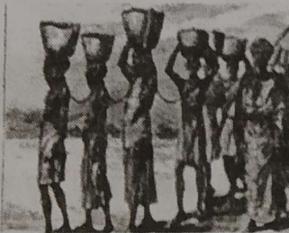
- ◆ Consequentialism is an ethical theory that judges whether or not something is right by what its consequences are.
- ◆ For instance, most people would agree that lying is wrong. But if telling a lie would help save a person's life, consequentialism says it is the right thing to do.
- ◆ Two examples of consequentialism are:
  - Utilitarianism, and
  - Hedonism



|                       |   |
|-----------------------|---|
| <b>Utilitarianism</b> | <ul style="list-style-type: none"> <li>• judges consequences by a "greatest good for the greatest number" standard.</li> </ul>    |
| <b>Hedonism</b>       | <ul style="list-style-type: none"> <li>• says something is "good" if the consequence produces pleasure or avoids pain.</li> </ul> |

- ◆ Consequentialism is sometimes criticised because it can be difficult or even impossible, to know what the result of an action will be ahead of time. Indeed, no one can know the future with certainty.
- ◆ In certain situations, consequentialism can lead to decisions that are objectionable even though the consequences are arguably good.

### Example Box 5.1 :



Let us suppose economists could prove that the world economy would be stronger and that most people would be happier, healthier and wealthier, if we just enslaved 2% of the population. Although the majority of people would benefit from this idea, most would never agree to it. However, when judging the idea solely on its results, as classic consequentialism does, then "the end justifies the means."

## Utilitarianism

It is the greatest good to the greatest number of people which is the measure of right and wrong.

- Jeremy Bentham

- ◆ Utilitarianism is an ethical theory that determines right from wrong by focusing on outcomes. It is a form of consequentialism.
- ◆ Utilitarianism holds that the most ethical choice is the one that will produce the greatest good for the greatest number.

- ◆ This is end oriented approach. It was developed by John Stuart Mill.
- ◆ It is the only moral framework that can be used to justify military force or war. It is also the most common approach to moral reasoning used in business because of the way in which it accounts for costs and benefits.
- ◆ However, because we cannot predict the future, it is difficult to know with certainty whether the consequences of our actions will be good or bad. This is one of the limitations of utilitarianism.
- ◆ Utilitarianism also has trouble accounting for values such as justice and individual rights.

The only one person for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others. His own good, either physical or moral, is not sufficient warrant

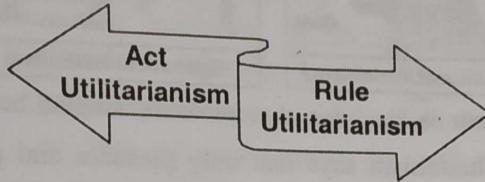
- John Stuart Mill

## Example Box 5.2 :



Assume a hospital has four people whose lives depend upon receiving organ transplants: a heart, lungs, a kidney, and a liver. If a healthy person wanders into the hospital, his organs could be transplanted to save four good for the greatest number. This would arguably produce the greatest course of action.

- ◆ So, although utilitarianism is arguably the most reason-based approach to determining right and wrong, it has obvious limitations.
- ◆ There are two types of utilitarianism:



- ◆ **Act utilitarianism** subscribes precisely to the definition of utilitarianism—a person performs the acts that benefit the most people, regardless of personal feelings or the societal constraints such as laws.
- ◆ **Rule utilitarianism** takes into account the law and is **concerned with fairness**.
- ◆ A rule utilitarian seeks to benefit the most people but through the fairest and most just means available. Therefore, added benefits of rule utilitarianism are that it values **justice and includes beneficence at the same time**.
- ◆ Both act and rule utilitarianism have disadvantages.
- ◆ Although people can use their life experiences to attempt to predict outcomes, no one can be certain that his predictions will be accurate.
- ◆ Uncertainty can lead to unexpected results making the utilitarian decision maker appear unethical as time passes, as the choice made did not benefit the most people as predicted.
- ◆ An act utilitarian decision maker is concerned with **achieving the maximum good**. Thus, one individual's rights may be infringed upon in order to benefit a greater number of people.
- ◆ In other words, act utilitarianism is **not always concerned with justice, beneficence or autonomy for an individual if oppressing the individual leads to the solution that benefits a majority of people**.

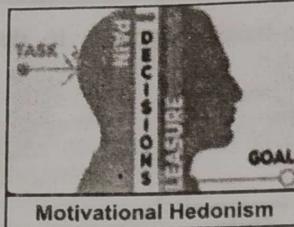
|              | Act Utilitarianism  | Rule Utilitarianism  |
|--------------|---|--|
| What it is   | Utilitarian theory of ethics that highlights the morality of an action is determined by its usefulness to the people. | A utilitarian theory of ethics that highlights the morality of an action is when it conforms to a certain rule that leads to the greatest good or happiness of the people. |
| Morality     | Morality is on the effect of a good action that benefits most people.   | Morality is on following a certain rule or code of conduct (when doing an action) that has benefits to most people.  |
| Consequences | Consequences are on the action.   | Consequences are on the rule(s) followed.  |

## Hedonism

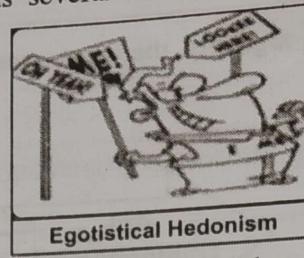
- ◆ Hedonism is the belief that pleasure, or the absence of pain, is the most important principle in determining the morality of a potential course of action.
- ◆ Pleasure can be things like "Drugs and rock 'n' roll," but it can also include any intrinsically valuable experience like reading a good book.
- ◆ Hedonism is a type of consequentialism, and it has several forms.



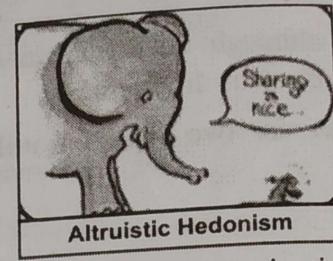
Normative Hedonism



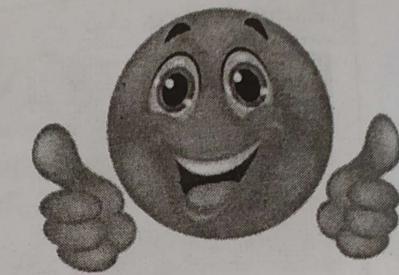
Motivational Hedonism



Egotistical Hedonism



Altruistic Hedonism



- ◆ For example, Normative hedonism is the idea that pleasure should be people's primary motivation.
- ◆ On the other hand, Motivational hedonism says that only pleasure and pain cause people to do what they do.
- ◆ Egotistical hedonism requires a person to consider only his or her own pleasure in making choices.
- ◆ Conversely, Altruistic hedonism says that the creation of pleasure for all people is the best way to measure if an action is ethical.

*"Nature has placed mankind under the governance of two sovereign masters, pain, and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do" (Bentham 1789)*

- ◆ Regardless of the type of hedonism, critics fault it as a guide for morality because hedonism ignores all other values, such as freedom or fairness, when evaluating right and wrong.

### The Greatest Happiness Principle is...



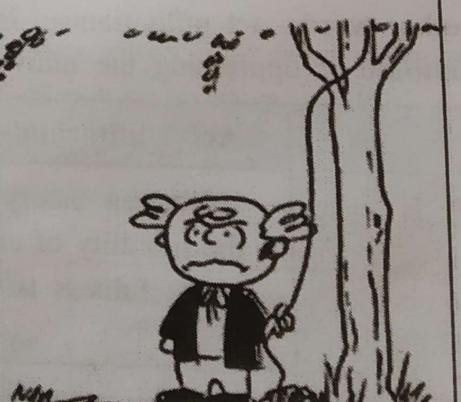
*... "actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness."*

### Happiness is...



*... "intended pleasure, and the absence of pain."*

### Unhappiness is...



*... "pain, and the privation of pleasure."*

## Deontology

- Deontology approach is also known as **duty oriented approach**.
- Deontology is an ethical theory that uses rules to distinguish right from wrong.
- Deontology is often associated with philosopher **Immanuel Kant, German Philosopher**.
- Kant believed that **ethical actions follow universal moral laws**, such as "Donot lie. Donot steal. Donot cheat."
- Deontology is **simple to apply**.

"In law a man is guilty when he violates the rights of others. In ethics he is guilty if he only thinks of doing so."

- Immanuel Kant

"But a lie is a lie, and it in itself intrinsically evil, whether it be told with good or bad intent."

- Immanuel Kant

- It states that people should follow their obligations and duties when engaged in decision making. This means that a person will follow his obligations to another individual or society because upholding one's duty is what is considered ethically correct.
- Rightness or wrongness of action depends on formal moral criteria and not on basis of consequences i.e. end result.

- This approach tends to fit well with our natural intuition about what is or is not ethical.
- Unlike consequentialism, which judges actions by their results, deontology does not require weighing the costs and benefits of a situation. This avoids subjectivity and uncertainty because you only have to follow set rules.
- Despite its strengths, rigidly following deontology can produce results that many people find unacceptable.

### Example Box 5.3 :



You are a software engineer and learn that a nuclear missile is about to launch that might start a war. You can hack the network and cancel the launch but it is against your professional code of ethics to break into any software system without permission. It is a form of lying and cheating. Deontology advises not to violate this rule. However, in letting the missile launch, thousands of people will die.

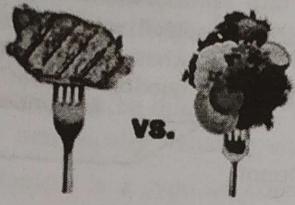
- So, following the rules makes deontology easy to apply. But it also means disregarding the possible consequences of our actions when determining what is right and what is wrong.
- Deontology contains many positive attributes. But it has many flaws. One of flaw is that there is **no rationale or logical basis for deciding an individual's duties**.

## Relativism

- Moral relativism is the idea that there is **no universal or absolute set of moral principles**.
- It is a version of morality that advocates "to each her own," and those who follow it say, "Who am I to judge?"
- Relativism is the belief that something might be right for you but wrong for me.** Basically it means that each person becomes his or her own god, deciding what is right and good.
- Moral relativism can be understood in several ways.
- Descriptive moral relativism**, also known as **cultural relativism**, says that moral standards are culturally defined, which is generally true.



#### Example Box 5.4 . Cultural Relativism



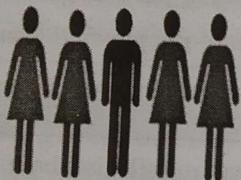
We cannot criticise the Chinese for eating dogs. It is part of their culture. If you are a vegetarian, you should not criticise another person's diet. It is wrong to tell someone how to live their lives.

#### Example Box 5.5 :



Hitting children in some cultures is considered moral as a legitimate method of education, while in others it is considered to be child abuse, hence immoral.

#### Example Box 5.6 :



Polygamy (i.e. having more than one wife) is considered unethical in some cultures while it is normal in some culture.

- Indeed, there may be a few values that seem nearly universal, such as honesty and respect, but many differences appear across cultures when people evaluate moral standards around the world.
- Meta-ethical moral relativism** states that there are no objective grounds for preferring the moral values of one culture over another.
- Societies make their moral choices based on their unique beliefs, customs, and practices. And, in fact, people tend to believe that the "right" moral values are the values that exist in their own culture.
- Normative moral relativism** is the idea that all societies should accept each other's differing moral values, given that there are no universal moral principles. Most philosophers disagree however.

#### Example Box 5.7 :

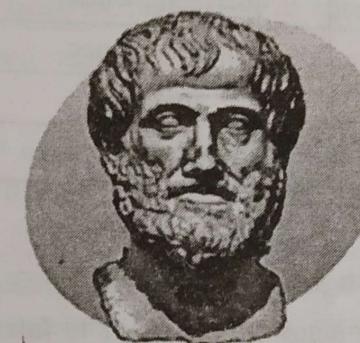


Bribery is okay in some cultures. It does not mean that other cultures cannot rightfully condemn it.

- Moral relativism is on the opposite end of the continuum from moral absolutism, which says that there is always one right answer to any ethical question. Indeed, those who adhere to moral relativism would say, "When in Rome, do as the Romans do."

**Virtue Ethics**

- ◆ Virtue ethics is a philosophy developed by Aristotle and other ancient Greeks. It is the quest to understand and live a life of moral character.
- ◆ "Wisdom is known what to do next, Virtue is doing it."  
- David Starr Jordan
- ◆ How does a person develop virtues? Virtues are developed through learning and through practice.
- ◆ As the ancient philosopher Aristotle suggested, a person can improve his character by practicing self-discipline, while a good character can be corrupted by repeated self-indulgence.
- ◆ Just as the ability to run a marathon develops through much training and practice, so too does our capacity to be fair, to be courageous, or to be compassionate.
- ◆ By practicing being honest, brave, just, generous, and so on, a person develops an honorable and moral character.
- ◆ **Virtues are habits.** That is, once they are acquired, they become characteristic of a person.
- ◆ **For example,** a person who has developed the virtue of generosity is often referred to as a generous person because he or she tends to be generous in all circumstances.
- ◆ Moreover, a person who has developed virtues will be naturally disposed to act in ways that are consistent with moral principles. The virtuous person is the ethical person.
- ◆ **According to Aristotle,** by improving virtuous habits, people will likely make the right choice when faced with ethical challenges.
- ◆ So, virtue ethics helps us understand what it means to be a virtuous human being. And, it gives us a guide for living life without giving us specific rules for resolving ethical dilemmas.
- ◆ One weakness of virtue ethical theory is that it does not take into consideration a person's change in moral character.
- ◆ Different cultures may value certain virtues more than others but generally virtues refer to such traits as honesty, kindness, patience, civility, compassion, diligence, self-reliance, loyalty, fairness, courage, tolerance, conscientiousness, generosity, temperance, self-control, prudence, etc.
- ◆ A problem with virtue ethics approach is that it does not provide much of a guide for action. The definition of virtue cannot be worked out objectively; it depends on the circumstances – you work it out as you go.



We are  
what we  
repeatedly do.

Excellence  
then,  
is not an act,  
but a habit  
- Aristotle

**Example Box 5.8 :**

1. An individual who alerts you to someone in their department engaging in illegal behavior.
2. An individual who is unwilling to sacrifice their moral beliefs for personal advancement.
3. Purchase Manager enter into deal to purchase raw material for company honestly. He does not cheat his organisation and he has not obtained any direct or indirect commission for deal.

- ◆ According to Aristotle, the best virtues lie in the balance. Excess or deficiency in the main character are considered as vices.

| Aristotle's Concept of the Golden Mean |              |               |
|--|--------------|---------------|
| Deficiency (-)                         | Balance      | Excess (+)    |
| cowardice                              | COURAGE      | rashness      |
| stinginess/miserliness                 | GENEROSITY   | extravagance  |
| sloth                                  | AMBITION     | greed         |
| humility                               | MODESTY      | pride         |
| secrecy                                | HONESTY      | loquacity     |
| moroseness                             | GOOD HUMOR   | absurdity     |
| quarrelsomeness                        | FRIENDSHIP   | flattery      |
| self-indulgence                        | TEMPERANCE   | insensibility |
| apathy                                 | COMPOSURE    | irritability  |
| indecisiveness                         | SELF CONTROL | impulsiveness |

### Justice

- ◆ Prof. John Rawl developed theory of distributive justice.
- ◆ Justice for many people refers to fairness. But while justice is important to almost everyone, it means different things to different groups.
- ◆ This theory demands that decision makers should be guided by fairness, equity as well as impartiality. Each person is to have equal liberty. Social and economic inequalities are to be so arranged that these are to everyone's advantage and are attached to position and offices that are open to all.
- ◆ For instance, social justice is the notion that everyone deserves equal economic, political, and social opportunities irrespective of race, gender, or religion.

#### Example Box 5.9 :

If Jiten and Jigna both do the same work, and there are no relevant differences between them or the work they are doing, then in justice they should be paid the same wages. And if Jiten is paid more than Jigna simply because he is a man, or because he is white, then we have an injustice—a form of discrimination—because race and sex are not relevant to normal work situations.

- ◆ Let us discuss different types of justice :

|                                   |   |   |
|-----------------------------------|---|---|
| Distributive justice              | { | It refers to the equitable allocation of assets in society.                               |
| Environmental justice             | { | It is the fair treatment of all people with regard to environmental burdens and benefits. |
| Restorative or Corrective justice | { | It seeks to make whole those who have suffered unfairly.                                  |
| Retributive justice               | { | It seeks to punish wrongdoers objectively and proportionately.                            |
| Procedural justice                | { | It refers to implementing legal decisions in accordance with fair and unbiased processes. |

- All above types of justice could be used to evaluate specific business situation and the fairness of the organisation involved.

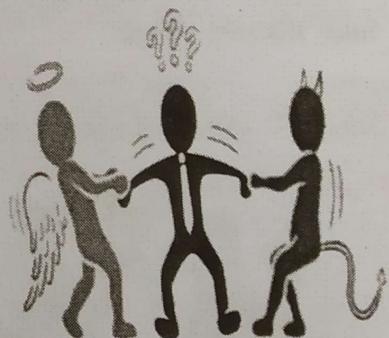
### Comparison of Various Moral Philosophies

- Following table contains summary of various moral philosophies which are applied in decision making:

| Moral Philosophies (Theories) | Theme  |
|-------------------------------|--|
| Consequentialism              | Consequentialism is an ethical theory that judges whether or not something is right by what its consequences are.  |
| Utilitarianism                | Concerned with consequences - seeks the greatest good for the greatest number of people.   |
| Deontology                    | Refers to moral philosophies that focus on the rights of individuals and on the intentions associated with a particular behavior rather than its consequences.   |
| Relativism                    | Definitions of ethical behavior are derived subjectively from the experiences of individuals and groups.   |
| Virtue Ethics                 | Argues that ethical behavior involves not only adhering to conventional moral standards but also considering what a mature person with a "good" moral character would deem appropriate in a given situation. |
| Justice                       | Fair treatment and due reward in accordance with ethical or legal standards, including the disposition to deal with perceived injustices of others   |

## 5.3. APPLYING MORAL PHILOSOPHY (THEORIES) TO ETHICAL DECISION

- With so many ethical theories about what is right and wrong, how do you decide which theory is best for your business or suitable in business decision making?
- It is not necessary that you are required to choose just one. Most ethics experts agree that one theory cannot be applied in every business, or even in every area of the same business.
- Each ethical theory has its own strengths and weaknesses. However, some theories are obvious fits in certain situations. **For example, Kantian theory**, which demands that you respect people as independent agents, works well when you are dealing with human resource issues.
- Utilitarianism**, which promotes the greatest good for everyone involved, works well in determining how to treat the environment.
- Virtue ethical theories**, on the other hand, are ideal for discussing the character of an ethical leader or ethical employee.
- No theory can substitute for a commitment to ethical values and the use of moral imagination.
- Moreover, for many ethical issues in business, every ethical theory (when applied correctly) yields the same answer.



## 5.4. COGNITIVE DEVELOPMENT

Jean Piaget's theory of cognitive development suggests that children move through four different stages of mental development. His theory focuses not only on understanding how children acquire knowledge, but also on understanding the nature of intelligence. Four stages described in Piaget's theory :

| Stage                              | Age              | Characteristics  |
|------------------------------------|------------------|--|
| Stage 1-Sensorimotor behaviour.    | Birth to 2 years | Discovery of relationship between sensory and motor                          |
| Stage 2-Preoperational stage       | 2 to 7 years     | Use of symbols through objects and beginning of the use of language.         |
| Stage 3-Concrete operational stage | 7 to 11 years    | Development of rational thinking, logical use of language and communication. |
| Stage 4-Formal operational stage   | 11 years onwards | Development of abstract reasoning.   |

Piaget believed that children take an active role in the learning process, acting much like little scientists as they perform experiments, make observations, and learn about the world. As kids interact with the world around them, they continually add new knowledge, build upon existing knowledge, and adapt previously held ideas to accommodate new information.

Piaget's stage theory describes the cognitive development of children. Cognitive development involves changes in cognitive process and abilities. In Piaget's view, early cognitive development involves processes based upon actions and later progresses to changes in mental operations.

Through his observations of his children, Piaget developed a stage theory of intellectual development that included four distinct stages:

### Stage 1 -Sensorimotor (Age: Birth to 2 Years)



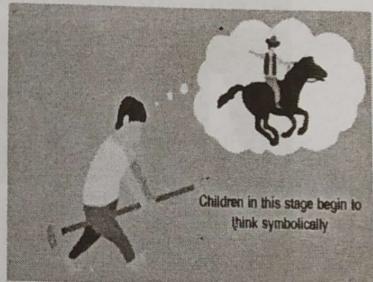
- ◆ It is during the sensory motor stage that children go through a period of dramatic growth and learning.
- ◆ As kids interact with their environment, they are continually making new discoveries about how the world works.
- ◆ The cognitive development that occurs during this period takes place over a relatively short period of time and involves a great deal of growth.
  
- ◆ Children not only learn how to perform physical actions such as crawling and walking; they also learn a great deal about language from the people with whom they interact.
- ◆ Piaget also broke this stage down into a number of different sub-stages. It is during the final part of the sensory motor stage that early representational thought emerges.
- ◆ By learning that objects are separate and distinct entities and that they have an existence of their own outside of individual perception, children are then able to begin to attach names and words to objects.

**Major elements here:**

- The infant knows the world through their **movements and sensations**.
- Children learn about the world through basic actions such as sucking, grasping, looking, and listening.
- Infants learn that things continue to exist even though they cannot be seen (object permanence).
- They are separate beings from the people and objects around them.
- They realise that their actions can cause things to happen in the world around them.
- During this earliest stage of cognitive development, infants and toddlers acquire knowledge **through sensory experiences and manipulating objects**. A child's entire experience at the earliest period of this stage occurs through basic reflexes, senses, and motor responses.

**Stage 2 - The Preoperational Stage (Age: 2 to 7 Years)**

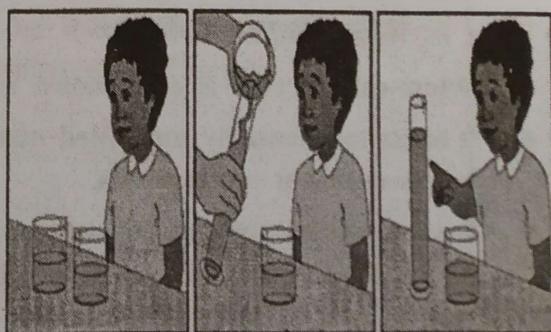
- ◆ The foundations of language development may have been laid during the previous stage, but it is the **emergence of language** that is one of the major hallmarks of the preoperational stage of development.
- ◆ At this stage, kids **learn through pretend play** but still struggle with logic and taking the point of view of other people.
- ◆ They also often struggle with understanding the idea of constancy.
- ◆ **For example**, a researcher might take a lump of clay, divide it into two equal pieces, and then give a child the choice between two pieces of clay to play with.
- ◆ One piece of clay is rolled into a compact ball while the other is smashed into a flat pancake shape. Since the flat shape *looks* larger, the preoperational child will likely choose that piece even though the two pieces are exactly the same size.

**Major elements here:**

- ◆ Children begin to think symbolically and learn to use words and pictures to represent objects.
- ◆ Children at this stage tend to be egocentric and struggle to see things from the perspective of others.
- ◆ While they are getting better with language and thinking, they still tend to think about things in very concrete terms.

**Stage 3- The Concrete Operational Stage (Age: 7 to 11 Years)**

- ◆ While children are still very concrete and literal in their thinking at this point in development, they become much more **skillful at using logic**.
- ◆ The egocentrism of the previous stage begins to disappear as kids become better at thinking about how other people might view a situation.
- ◆ During this stage, children also **become less egocentric** and begin to think about how other people might think and feel.
- ◆ Kids in the concrete operational stage also begin to understand that their thoughts are unique to them and that not everyone else necessarily shares their thoughts, feelings, and opinions.



"This is the same quantity."

**Major elements here:**

- ◆ During this stage, children begin to think logically about concrete events.
- ◆ They begin to understand the concept of conservation; that the amount of liquid in a short, wide cup is equal to that in a tall, skinny glass, for example their thinking becomes more logical and organized, but still very concrete
- ◆ Children begin using inductive logic, or reasoning from specific information to a general principle.

**Stage 4 - The Formal Operational Stage (Age: 11 Years and onward)**

- ◆ The final stage of Piaget's theory involves an **increase in logic, the ability to use deductive reasoning, and an understanding of abstract ideas.**
- ◆ At this point, people become capable of seeing multiple potential solutions to problems and think more scientifically about the world around them.



- ◆ It is important to note that Piaget did not view children's intellectual development as a quantitative process; that is, kids do not just add more information and knowledge to their existing knowledge as they get older. Instead, Piaget suggested that there is a *qualitative* change in how children think as they gradually process through these four stages.
- ◆ A child at age 7 years does not just have more information about the world than he did at age 2; there is a fundamental change in *how* he thinks about the world.

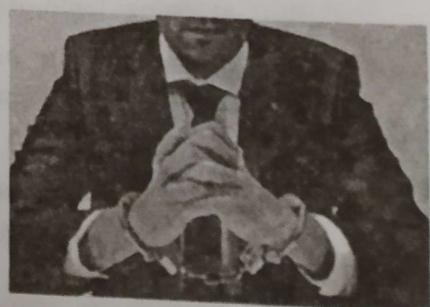
**Major elements:**

- ◆ At this stage, the adolescent or young adult begins to think abstractly and reason about hypothetical problems.
- ◆ Abstract thought emerges.
- ◆ Teens begin to think more about moral, philosophical, ethical, social, and political issues that require theoretical and abstract reasoning.
- ◆ Begin to use deductive logic, or reasoning from a general principle to specific information.

## 5.5. WHITE COLLAR CRIME

**What is White Collar Crime?**

- ◆ **White-collar crime** is also known as **corporate crime**.
- ◆ It refers to financially **motivated nonviolent crime** committed by business and government professionals.
- ◆ It is committed by persons who, often by virtue of their occupations, exploit social, economic, or technological power for personal or corporate gain.
- ◆ White collar crime was **first defined in 1939** by the sociologist **Edwin Sutherland** as "a crime committed by a professional in his or her capacity in the professional world against a large corporation, agency, or other professional entity."



- The motivation for these crimes is to obtain or avoid losing money, property, or services, or to secure a personal or business advantage.
- Those who commit white-collar crimes are investigated and prosecuted by various central government agencies in most countries, such as the Enforcement Directorate (ED) and Securities and Exchange Board of India (SEBI) in India.
- The most common white collar crimes are various types of fraud, embezzlement, tax evasion and money laundering. Many types of scams and frauds fall into the bucket of white collar crime, including Ponzi schemes and securities frauds such as insider trading. More common crimes, like insurance fraud and tax evasion, also constitute white collar crimes.

#### Example Box 5.10 :



Misrepresentation of a corporation's finances in order to deceive regulators and others.

#### Example Box 5.11 :



Induce investor into fraudulent investment opportunities in which potential returns are exaggerated and risks are portrayed as minimal or non-existent by exhibiting that pretty good return will be available even if risk associated is high.

#### Common Characteristics of White Collar Crime

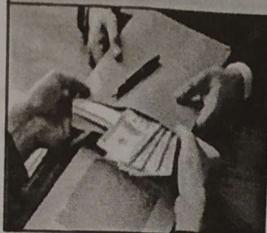
- Most of white-collar crimes have several characteristics in common.
- White collar crimes (WCC) involve the **use of deceit and concealment, rather than the application of force or violence**, for the illegitimate gain of money, property, or services.

#### Example Box 5.12 :



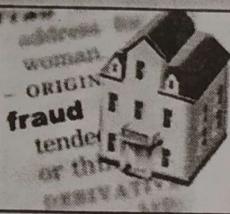
A person who is convicted of making false statements in order to obtain a government contract is considered a white-collar criminal.

- White collar crimes typically involve abuse of positions of trust and power.

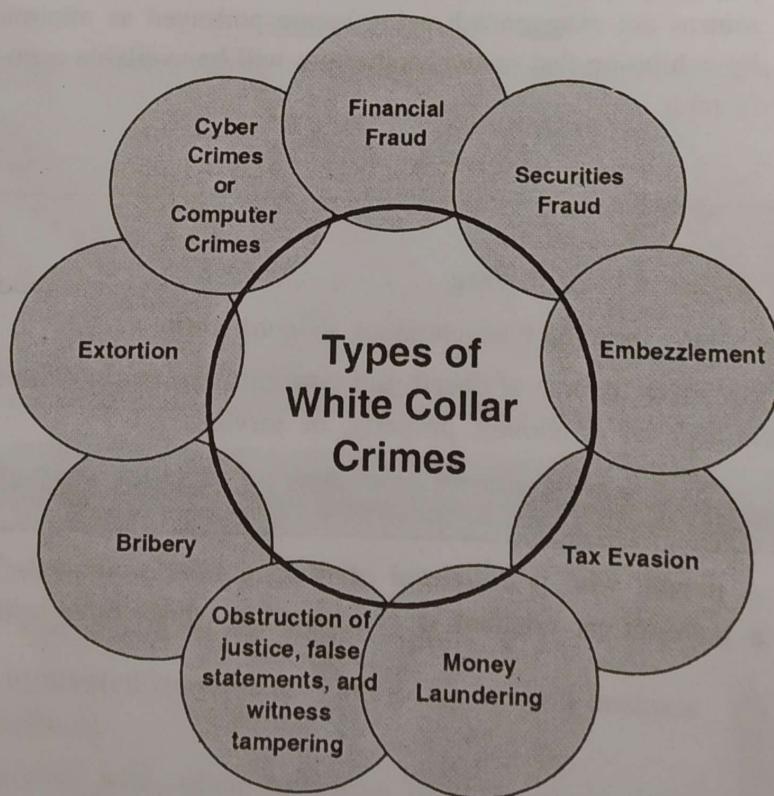
**Example Box 5.13 :**

- ✓ Public officials who solicit and accept bribes.
- ✓ Company's manager who fix prices to drive competitors out of business has abused his position.

- ◆ White-collar crime is also often more **difficult to detect** than other types of crime because losses may not be immediately apparent to victims but also because the crimes can involve sophisticated schemes and cover-ups.
- ◆ Many white-collar crimes require concerted criminal activity by co-conspirators.

**Example Box 5.14 :**

Generally, in case of real-estate fraud, it requires involvement and knowing participation of bank officer, a buyer, valuer, and a government officer. All of them were willing to sign false documents to commit a fraud for personal gain.

***Types of White-Collar Crime***

### Financial Fraud

- Fraud makes up the vast majority of the white collar crimes.
- It is the act of deceiving an individual for monetary advantage.



#### Example Box 5.15 :

Manipulation of the negotiable instruments like cheque bouncing, securities, bank deposits etc. by fraud committed with bank.

### Securities Fraud



- Securities fraud is carried out in many different forms but one common type is “**insider trading**”.
- In case of insider trading, someone with inside information about a company or investment trades on that information in violation of a duty or obligation.
- In USA, insider trading is also known as “**self-dealing**”.

#### Example Box 5.16 :

A top executive knows confidential information about proposed declaration of high amount of dividend by company. Having this unpublished price sensitive information, he buys equity shares of company in name of his wife. It is insider trading.

- Another type of securities fraud takes place when someone seeks investment in a company by knowingly misstating the company’s prospects, health, or finances. By luring an investor to put up money based on false or misleading information, the company and individuals within it commit securities fraud. False or misleading statements in public reports from publicly traded companies also can constitute securities fraud.
- To commit securities fraud, those speaking on behalf of the business must make these false statements with knowledge that they are false, or at least reasonably should have known them to be false.

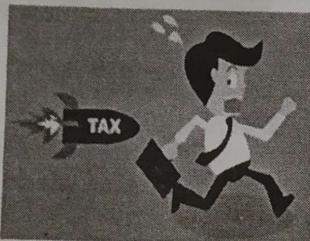
### Embezzlement

- Embezzlement is the act of inappropriately taking money from an individual to whom you owe something.



**Example Box 5.17 :**

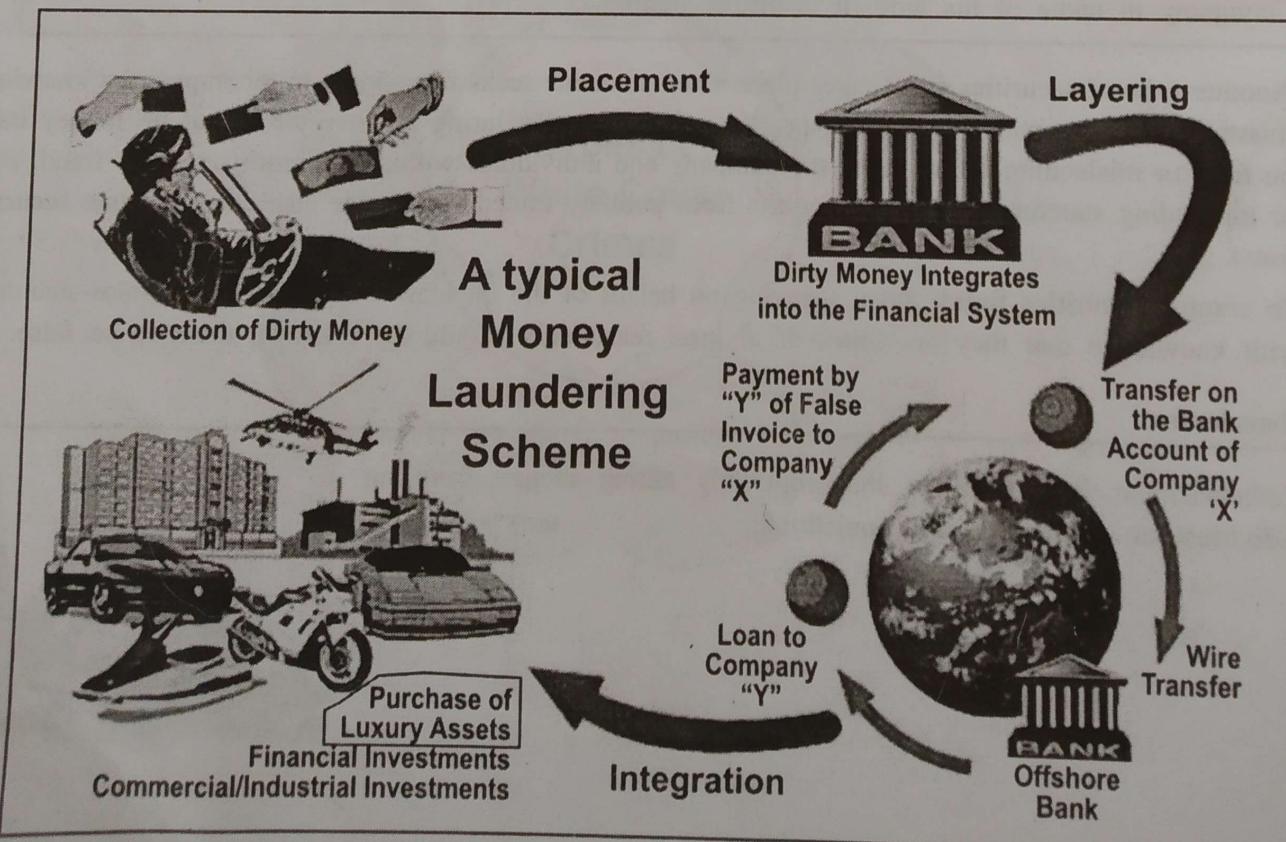
A company's employee that embezzles money from their employer by siphoning money into a personal account. Investment advisers who improperly use client funds is also said to have embezzled money because they have been entrusted to protect money.

**Tax Evasion**

- Tax evasion is when an individual attempts to bypass paying taxes that they are normally obligated to pay.
- Tax evasion can range from simply filing tax forms with false information (hide or conceal income) to illegally transferring property so as to avoid tax obligations.
- Individuals as well as businesses can commit criminal tax evasion.

**Money Laundering**

- Money laundering is the criminal act of filtering illegally obtained ("dirty") money through a series of transactions designed to make the money appear legitimate ("clean"). It is process of converting black money into white money.
- In India, "money laundering" is popularly known as **Hawala transactions**.
- Money laundering often involves **three steps** :
  - ✓ **First**, the money is deposited into a financial institution such as a bank or brokerage.
  - ✓ **Second**, the money is separated from its illegal origin by layers of often complex transactions, making it more difficult to trace the "dirty" money.
  - ✓ The **third** step is integration. This is where the freshly "cleaned" money is mixed with legally obtained money, often through the purchase or sale of assets.



**Example Box 5.18 :**

**Shell companies:** These are fake companies that exist for no other reason than to launder money. They take in dirty money as "payment" for supposed goods or services but actually provide no goods or services; they simply create the appearance of legitimate transactions through fake invoices and balance sheets.

**Structuring Deposits:** This is also known as smurfing, this is a method of placement whereby cash is broken into smaller deposits of money, used to defeat suspicion of money laundering and avoid anti-money laundering reporting requirements

**Other White Collar Crimes**

- Obstruction of justice, false statements, and witness tampering are also considered white-collar crimes.
- Bribery and extortion are more general. Both of them constitute illegal means of influencing persons in power in public or private institutions.
- Bribery involves the giving of something of value in exchange for an official's exercise of power.
- Extortion is a threat made to obtain a benefit from either a public official or a private individual.



- **Computer crimes** represent one means by which white-collar criminals exploit technology. Common examples cover a wide variety of criminal activity, including using a computer as a mechanism for committing securities fraud, credit-card fraud, and identity theft. Computer crimes also may involve illegally accessing and tampering with other users' computer files.

**Impact of White Collar Crime**

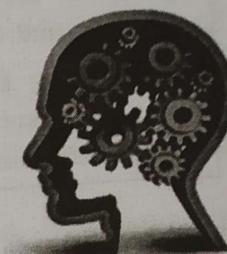
- ◆ Although white-collar crime has traditionally been viewed as less serious than other types of crime (largely because it does not involve physical violence), by the late 20<sup>th</sup> century there was a growing recognition of the significant harm it causes.
- ◆ In a single year, for example, nearly \$500 million in restitution was awarded to victims of white-collar crimes in USA.
- ◆ The cost of corporate crime to society is many times that of organised crime or the more common street crime.
- ◆ Moreover, it cannot be measured in monetary damages alone because corporate crimes can also pose health risks, compromise safety, cause injuries or fatalities, bring harm to wildlife and the environment, and lead to organisational failures and associated job losses.

## 5.6. ROLE OF INDIVIDUAL FACTORS IN BUSINESS ETHICS

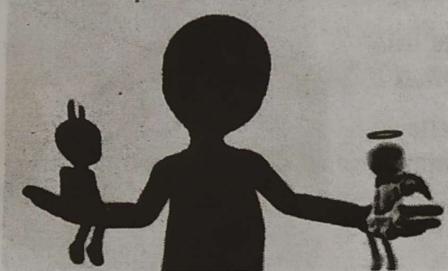
Individual factors relate to the individual and his value system.

### *Individual Knowledge of an Issue*

- ◆ How much an individual knows about an issue is one factor.
- ◆ A decision maker with a greater amount of knowledge regarding a situation may take steps to avoid ethical problems, whereas a less informed person may take action unknowingly that leads to an ethical complex situation.



### *Individual Moral Values*



- ◆ An individual's moral values and related attitudes also clearly influence his business behavior.
- ◆ Value system is shaped by various institutions like, family, religion, school etc. These institutions prescribe what is good or bad. Right behaviour is rewarded while wrong behaviour is punished.

- ◆ It continues throughout life of an individual as he acquires certain values through his daily experience.
- ◆ These moral values learned are key factors which influence decision making.

### *Personal Goal in Conflict*

- ◆ Most people join organisation to accomplish personal goals.
- ◆ The types of personal goals an individual aspires to and the manner in which these goals are pursued have a significant impact on that individual's behavior in an organisation.
- ◆ The actions of specific individuals in scandal plagued companies, such as Enron and WorldCom, often raise questions about individuals' personal character and integrity.



### • PRACTICE QUESTIONS •

1. What do you understand by philosophy and moral philosophy?
2. Moral philosophy and business ethics are same. Comment.
3. Explain the concept of Economic value orientation in context of moral philosophy.
4. Elaborate terms: Idealism and Realism.
5. Discuss consequentialism
6. Discuss utilitarianism
7. Briefly explain about deontology.
8. Explain relativism. And in what different ways moral relativism can be understood?
9. What is virtue ethics?
10. Discuss the concept of justice with reference to moral philosophy.
11. Explain the Jean Piaget's theory of cognitive development.
12. What is white collar crime?
13. State common characteristics of white collar crime.
14. What are the different types of white collar crime?
15. What are the impact of white collar crime?