



Book Just Business

Business Ethics in Action, Second Edition

Elaine Sternberg
Oxford UP, 2000

Recommendation

Elaine Sternberg has written an important, fascinating look at business ethics. Despite its academic presentation, it hooks you right away, and keeps you hooked. She is not fuzzy in her ethical analysis; there is no moral posturing to be found. This book is a practical decision-making guide for businesspeople. Sternberg builds an ethical framework that starts with the fundamental premise that the goal of business is to increase owner value. If an ethical issue relates to that goal, it's one you must address. If not, it's not your problem. Once you've identified an ethical dilemma that you must resolve, Sternberg guides you through a series of intellectual exercises that narrow your options, identify your constraints and ultimately help you arrive at the correct answer. *BooksInShort* recommends this book as a seminal introduction to ethical decision making for business men and women that should be read by all and referred to often.

Take-Aways

- To understand business ethics, you must first understand what a business is and isn't.
- Business has the goal of maximizing long-term owner value.
- Understanding your purpose is essential for evaluating your ethics.
- Business ethics inherently permeate all business activity.
- Business ethics are not the same as common sense.
- The two key principals of business ethics are distributive justice and ordinary decency.
- Step one of the Ethical Decision Model is: Clarify the question.
- Step two is: Determine its relevance for this business.
- Step three is: Identify the circumstantial constraints.
- Step four is: Assess the available options.

Summary

Business Ethics

To have a clear understanding of business ethics, you must first understand what business itself really is - and what it isn't. Business is a distinctive activity, with its own objectives and guiding principles, so its conduct can't be judged by the standards of other fields whose objectives are completely different. That doesn't mean, however, that a separate "business ethic" should exist - it should not. Such a belief would destroy ethics and do no justice to business.

“All sorts of motives, even noble ones, can give rise to immoral acts; worthy intentions are no proof against ignorance or error or foolishness.”

To assess business ethics, begin by examining purpose. This approach, which identifies and explains people's activities by referring to their ends, aims, goals, objectives or purposes, is often called "teleological," from the root word, telos - Greek for "end." The same activity can be undertaken for completely different purposes. So, understanding the action - and its ethics - requires knowing its purpose. For example, if a young man knocks an old man down in the street, his objective could be to mug the old man, but it also could be to protect him from a mugger or to save him from an oncoming car.

“Ethical concerns permeate every aspect of business activity, because ethical concerns permeate all human activity.”

What constitutes ethical conduct in business, as in every other area of life, depends on business's definitive purpose. Many business wrongs stem from misunderstanding business' purpose or from pursuing the wrong goal instead of the proper business goal.

The Ethics of Value

Ethics inherently permeate all business activity. The managerial challenge is to make ethical decision making explicit in order to make it better. While ethical decision-making has an element of common sense, business ethics are not the same as common sense. Contrary to what you may fear, business ethics aren't anti-business. Instead, they actually provide essential support for building long-term value. Ethical considerations are part of even the most trivial decisions. Daily activities determine whether a business is ethical. Look at the way a company deals with its employees and customers, the way it designs and supports its products and services, the way it awards contracts and apportions blame. But also take a very close look at the way it deals with a crisis.

“The choice facing business is not whether to confront ethical concerns, but how.”

Since ethical concerns are inescapable, not an option, businesses must decide not whether to confront them, but how to do it. Difficult business ethics issues are the ones that spawn disagreement about what is right. Differing views may arise from unfamiliarity with the issues or lack of analysis. Usually, serious ethical dilemmas arise when people are faced with apparently incompatible objectives. For example, employees may be told to improve quality, but they are actually politically and financially rewarded for sacrificing quality to cheapness. Employees at every level are routinely required to defend the indefensible.

The Nature of Business

Business has one defining purpose: Maximizing owner value over the long term by selling goods or services. Business is not an association to promote social welfare, spiritual fulfillment or full employment. Neither is business a family, a club or a hobby. Business isn't the same as government.

“It is not the purpose of business to be a friend or a relative or a source of spiritual comfort. Accordingly, despite much misguided rhetoric to the contrary, it is inappropriate to demand friendly family loyalty from, or for, a business.”

To maximize long-term value, you must take into account behavior by and to all stakeholders, since anything that alienates stakeholders or discourages repeat business won't maximize long-term owner value. None of this means that business is intrinsically immoral. Business isn't a game, or war or a machine, and doesn't have an ethic separate from ethical considerations in any other area of life.

“The glue which holds a company together is its beliefs and values, rather than its structures and systems.” [Sir Adrian Cadbury]

The two key principles of business ethics are distributive justice and ordinary decency.

- Distributive justice occurs when organizational rewards, in any form, are distributed on the basis of contributions made to organizational goals.
- Ordinary decency isn't merely niceness. It constitutes the conditions of trust necessary both for taking a long-term view and for surviving over the long term and consists of honesty, fairness, the absence of physical violence and coercion, and the presumption of legality. These issues extend throughout the business to include product safety and advertising.

“The shifting focus of public concern has brought about not just greater interest in business ethics, but also a change in the main issues attracting popular attention.”

The fundamental question, "If it's good for the business can it really be ethical?" can be answered in the affirmative. Many of the stickiest ethical dilemmas involve conflicts of interest and, ironically, the worst problems usually arise from situations when a business' own rules create a positive incentive to do the wrong thing. Some ethical questions are easily answered, while others can fall into gray areas. Bribery is always unethical. Pandering to stakeholder prejudices can be unethical, but even aggressive competitive techniques usually can be ethical.

The Ethical Decision Model

The Ethical Decision Model is a general framework for resolving questions of business ethics. Using such a model isn't a substitute for moral or business leadership, good principles or careful judgment. You must still take the complete circumstances of actual situations into account. This model can't erase moral problems or eliminate the need to make difficult decisions. However, the model can identify which problems you actually need to address, and offer you a way to resolve them by indicating what information is relevant to ethical decision making, by organizing that information and by specifying the ethical principles you should use to decide what is right. The Ethical Decision Model introduces clarity and structure to matters that are usually clouded by emotion.

Step One - Clarify the Question

Ethical answers seem elusive because the questions themselves often are fatally flawed. Even logical business ethics questions must be examined closely before you make a decision, since such questions often are abstract and encompass many interrelated issues.

“One measure of the value of business ethics to business is the damage that a lack of it can cause.”

To create the correct question, identify which difficulty is really at issue among the related difficulties surrounding the dilemma. Businesses usually face limited specific questions that are clouded by broader issues that might be important to society, but for which the business doesn't actually bear responsibility.

“It may well be that business conduct is no better or worse than other conduct, but that business wrongdoing is simply more noticeable.”

"What should business do about the environment" is a tricky, broad question that business probably can't answer satisfactorily. But each individual business can and should decide, "Which solvent, cleaner or paper should we use?" and "What should we do with our by-products?"

To clarify what is actually being asked, determine who is asking, what prompted the issue, what is at stake, who will be affected by the outcome, what sort of decision or action might be needed and why there are differing views. Determine whether the decision applies over a short, medium or long-range time period; who is responsible for taking, implementing and reviewing the decision; how much time is available for making the decision and what your goal is.

Step Two - Determine Business Relevance

After analyzing the question, determine if it really is a problem for your particular business. If it isn't, you have no ethics issue to resolve. To make this determination, focus on the answers to three pivotal questions:

- Is the issue relevant to business?
- Is it relevant to this business?
- Is it a problem for this business?

“Sacrifice and suffering are not moral indicators, and are not required for business to be moral, nor is struggle.”

When questions arise regarding how business should pursue such goals as social welfare, environmental activism or personal development, the correct response is that these issues merit attention only if they contribute to maximizing long-term owner value. Do these goals help the business attract useful stakeholders, reduce the threat of regulation or serve as valuable image or promotional tools?

“Serious problems are more likely to arise when what is involved is not just a conflict of interest, but a conflict of obligation.”

Even if a concern is relevant to your company, you still must determine if it actually represents an ethical problem. For instance, if recycled paper is cheaper and of equal or greater quality, using it isn't necessarily an ethical decision, but a purely economic one.

Step Three - Identify the Circumstantial Constraints

Once you've established the question, identify any constraints that may limit your solutions. Business decisions are constrained by law, regulation, contractual, cultural, economic, physical and technical considerations.

Even though ethical principles remain constant over time, place and industry, what businesses actually can do is vitally and directly affected by their individual circumstances. You must also consider the classic business constraints of cost, availability and physical capability. For example, why choose an environmentally "greener" product if it can't perform the required function or can't meet your crucial needs?

On the other hand, a small business that depends solely on its local community may find that acceptance of local tastes, philosophies and preferences is the only way to survive.

Step Four - Assess the Available Options

Determine how alternative solutions measure up in light of maximizing long-term owner value and respecting distributive justice and ordinary decency. Weigh all the potential costs and consequences, including the distant, delayed and indirect costs, against all potential benefits.

For example, in making environmental decisions, the greater initial costs of a "green" alternative must be weighed against the expected long-term gains. Selling tuna caught by "dolphin-friendly" methods might increase long-term owner value if it attracts dolphin-friendly stakeholders. Being seen as "green" may help the business by attracting productive employees and like-minded investors, and by increasing the company's positive image.

When considering alternative courses of action, you must determine if they are fair and honest, and if they involve any form of lying, cheating, stealing, coercion or physical violence. Anything that violates ordinary decency must be rejected, even if it might increase profits. Ordinary decency thus obviously rules out kidnapping the competition, and killing complaining customers.

Conclusion: The Right Course of Action

Once you've identified the relevant question, the operative constraints and the alternative proposals, the ethical answer should be clear. Why, then, is ethics thought to pose such a problem in business? The answer is partly that identifying the correct course of action is just the first step. The action must then be implemented, and may include changes that people will find upsetting and difficult.

People erroneously believe that if something is done simply to achieve long-term profit, it is somehow tainted by greed, and therefore, unethical. That is simply not true. If a business’s positive environmental acts actually benefit the business, those acts are still ethical.

About the Author

Elaine Sternberg is an academic philosopher and international investment banker, and has been the head of successful businesses. She is now principal of a London-headquartered consultancy firm, and Research Fellow in Philosophy at the University of Leeds.
