Part One
An Overview of Business Ethics

Chapter 1
The Importance of Business Ethics
Business Ethics

- Ethics is a part of decision making at all levels of work and management
  - As important as functional areas of business
  - Questions whether practices are acceptable
  - There are no universally accepted approaches for resolving issues
Business Ethics Defined

- Comprises organizational principles, values, and norms that may originate from individuals, organizational statements, or from the legal system that primarily guide individual and group behavior in business

- Ethical decisions occur when accepted rules no longer serve and decision makers must weigh values and reach a judgment
  - Values and judgments play a critical role when we make ethical decisions
Business Ethics Defined

- **Morals**: Refer to a person’s personal philosophies about what is right or wrong
  - *Morals are personal and singular*

- **Principles**: Specific and pervasive boundaries for behavior that should not be violated
  - *Human rights, freedom of speech and justice*

- **Values**: Enduring beliefs and ideals that are socially enforced
  - *Teamwork, trust and integrity*
A Crisis in Business Ethics

- Nearly half of employees observe at least one form of misconduct in the workplace
- After the financial crisis, business decisions and activities have come under scrutiny
- The financial sector has not fully regained stakeholder trust
Global Trust in Industry Sectors

Observed Misconduct In The Workplace

- Misuse of company resources
- Abusive behavior
- Harassment
- Accounting fraud
- Conflicts of interest
- Defective products
- Bribery
- Employee theft
Reasons for Studying Business Ethics

- Having good individual morals is not enough to stop ethical misconduct
- Ethics training helps provide collective agreement in diverse organizations
- Business ethics decisions can be complicated
- Helps to identify ethical issues when they arise and recognize the approaches available to resolve them
### Timeline of Ethical and Socially Responsible Concerns

<table>
<thead>
<tr>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental issues</td>
<td>Employee militancy</td>
<td>Bribes and illegal contracting practices</td>
<td>Sweatshops and unsafe working conditions in third-world countries</td>
<td>Cybercrime</td>
</tr>
<tr>
<td>Civil rights issues</td>
<td>Human rights issues</td>
<td>Influence peddling</td>
<td>Rising corporate liability for personal damages (cigarette companies)</td>
<td>Financial misconduct</td>
</tr>
<tr>
<td>Increased employee-employer tension</td>
<td>Covering up rather than correcting issues</td>
<td>Deceptive advertising</td>
<td>Financial mismanagement and fraud</td>
<td>Global issues, Chinese product safety</td>
</tr>
<tr>
<td>Changing work ethic</td>
<td>Disadvantaged consumers</td>
<td>Financial fraud (savings and loan scandal)</td>
<td>Organizational ethical misconduct</td>
<td>Sustainability</td>
</tr>
<tr>
<td>Rising drug use</td>
<td>Transparency issues</td>
<td></td>
<td></td>
<td>Intellectual property theft</td>
</tr>
</tbody>
</table>

Before 1960: Ethics in Business

- Theological discussions of ethics emerged
  - Catholic social ethics were concerned with morality in business, workers’ rights, and living wages
  - The Protestant work ethic encouraged individuals to be frugal, work hard and attain success in the capitalistic system
  - These traditions provided a foundation for the future field of business ethics

- Social consciousness emerged
- Increased anti-business sentiment
- JFK’s Consumer Bill of Rights—a new era of consumerism
  - Right to safety, to be informed, to choose, and to be heard
- Consumer protection groups fought for legislation changes
  - Ralph Nader
1970s: Business Ethics as an Emerging Field

- **Corporate social responsibility** - an organization’s obligation to maximize positive impact and minimize negative impact on stakeholders
- Philosophers increased their involvement
- Businesses concerned with public image
- Conferences held and centers developed
- **Issues:**
  - Bribery
  - Deceptive advertising
  - Price collusion
  - Product safety
  - Environment
1980s: Consolidation

- Business ethics became an acknowledged field of study and firms established ethics committees
- Ethics centers provided publications, courses, conferences, and seminars
- Defense Industry Initiative on Business Ethics and Conduct (DII)
  - Foundation for the Federal Sentencing Guidelines for Organizations to come in the 1990’s
- President Reagan introduced self-regulation that changed the rules of business
1990s: Institutionalization of Business Ethics

- Continued support for self-regulation and free trade
  - Health-related issues more regulated
    - Set tone for compliance
    - Preventative actions against misconduct
    - A company could avoid/minimize potential penalties
21st Century of Business Ethics

- Continued corporate non-compliance
  - Increased public/political demand for improved ethical standards
  - Sarbanes-Oxley Act (2002)
    - Increased accounting regulations
  - FSGO reforms
    - Requires governing authorities to be informed of business ethics programs
  - Dodd-Frank Wall Street Reform and Consumer Protection Act (2010)
    - Aimed at making the financial industry more transparent/responsible

© 2015 Cengage Learning. All rights reserved. May not be copied, scanned, or duplicated, in whole or in part, except for use as permitted in a license distributed with a certain product or service or otherwise on a password-protected website for classroom use.
Organizational Ethical Culture

- Ethical culture: acceptable behavior as defined by the company and industry
  - Creates shared values and support for ethical decisions – driven by top management

- Goal:
  - Minimize need for enforced compliance
  - Maximize utilization of principles/ethical reasoning in difficult or new situations
Global Ethical Culture

● Collaborative efforts to establish goals and set minimum levels of ethical behavior
  ➢ European Union
  ➢ NAFTA
  ➢ MERCOSUR
  ➢ WTO

❖ Companies can demonstrate their commitment to social responsibility through adopting international standards like the United Nations Global Compact
Role of Organizational Ethics in Performance

- Ethical Culture
- Employee Commitment and Trust
- Investor Loyalty and Trust
- Customer Satisfaction and Trust
- Profits
Commitment comes from employees who are invested in the organization and willing to make personal sacrifices for the organization.

- The more company dedication to ethics, the greater the employee dedication.
- Concerns include a safe work environment, competitive salaries and benefits packages, and fulfillment of contractual obligations.
Ethics Contributes to Investor Loyalty

- Investors are increasingly interested in a company’s reputation and recognize how:
  - ethical culture provides a foundation for efficiency, productivity, and profitability
  - negative publicity, lawsuits, and fines threaten a company’s long-term viability

- Gaining investors’ trust and confidence is vital to sustaining financial stability
Ethics Contributes to Customer Satisfaction

- Customer satisfaction is an important factor in a successful business strategy
  - Companies seen to be socially responsible increase customer trust and satisfaction
  - Trust is essential for long-term customer relationships
  - A strong organizational ethical climate places customers’ interests first

- Ethical conduct toward customers builds a strong competitive position shown to positively affect performance and innovation
Ethics Contributes to Profits

- Companies need profits in order to meet their responsibilities
- Corporate concern for ethical conduct is being integrated with strategic planning
  - Maximizing profitability
- Ethics has moved from being a compliance standard to becoming an integral part of achieving a competitive advantage