Understanding BUSINESS ETHICS

Peter Stanwick
Sarah Stanwick

Understanding Business Ethics

Third Edition

To Casey and Olive, Sarah, Olivia, John, and Bill,
who have given me invaluable ethical guidance in my role as son,
husband, father, and brother.
—PAS

To Peter, Olivia, and John—the three most important reasons
for staying on an ethical track, and to my family, especially my mother,
and special friends, those who are here and those no longer with me,
who have provided inspiration and taught me through example
that ethics really do matter.
—SDS

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• Brief Contents •

• Detailed Contents •

• Preface to the Third Edition •

As the second decade of the new millennium moves forward, businesses around the world continue to address the ethical behavior of their employees. Whether you consider Charles Ponzi in the 1920s, Kenneth Lay in the 1990s, or Bernard Madoff in current times, unethical behavior is as old as commerce itself. Greed is part of human nature, and as long as there are finite amounts of goods of value, some people will try to obtain those items by whatever means possible.

In the movie *Wall Street,* trader Gordon Gekko, portrayed by Michael Douglas, highlights in his "Greed Is Good" speech that there is a fine line between using self-interests to motivate and using those same interests to obtain riches through unethical and greedy actions.

Our Philosophy

The philosophy of this textbook is to serve as an integration tool in the classroom to highlight the positive consequences of ethical behavior and the negative consequences of unethical behavior. The primary focus of the chapters is to present potential ethical dilemmas that decision makers may face pertaining to a number of different decision-making areas. Of the 26 cases in the textbook, 20 of the cases highlight the negative consequences for the company's stakeholders when managers pursue unethical decision making. Our challenge was to write a textbook that covers the necessary issues related to business ethics so that students will be better prepared for the ethical dilemmas they will face in their chosen careers. In addition, the presentation of six organizations that have a positive ethical focus also highlights that companies can be a positive force in supporting the needs of society.

We have found through our experiences in the classroom over the past 20 years that students need to be exposed to ethical situations. We believe that business students prefer a real-world approach. Today's business students like to discuss companies they are familiar with and those companies whose products and services create a familiar surrounding for them in their daily lives. Our goal was to use real-world scenarios in examples and cases that provide students with a basic understanding of the issues surrounding business ethics and that demonstrate that ethics really matter. Our textbook presents a broad and comprehensive perspective of ethics that includes chapters on information technology, financial management, marketing, human resources, natural environment, strategy, and the developing world. In addition, we also present information related to the Association to Advance Collegiate Schools of Business (AACSB)'s recommended topics of the responsibility of business in society, ethical decision making, ethical leadership, and corporate governance.

One of the benefits of this textbook is the flexibility it gives instructors for presenting the material. This textbook can be used at both the undergraduate and graduate levels. We believe that case discussions will differ significantly at each level. At the undergraduate level, we expect that students will focus on the most concrete ideas in the cases. However, at the graduate level, we expect that students will evaluate the cases by integrating their own experiences into the discussions, as well as recognize the more subtle aspects of the chapters and cases. The cases in the text are designed to stimulate class discussion on a variety of ethical issues.

Our goal was to write a textbook that differs from other ethics textbooks on four dimensions: (1) global perspective, (2) real-world business ethics cases, (3) comprehensive and diverse selection of ethics topics, and (4) a central theme linking each chapter. Each of these dimensions is expanded in the following discussion.

Key Dimension 1: Global Perspective

Seven ethics cases discuss organizations that are headquartered outside the United States, which demonstrates that ethical issues in business are both global and domestic in nature. Our textbook integrates a global focus within each of the 13 chapters in the textbook, and it includes one chapter (Chapter 11) that focuses on ethical issues related to developing countries. This allows the student to see the global impact of ethical decisions, and it allows the instructor the freedom to integrate ethical topics from a global perspective.

Key Dimension 2: Real-World Business Ethics Cases

The cases highlight a number of different ethical issues, including defective products, inaccurate financial statements, illegal investor trading, and top management misconduct. The majority of the cases included in our textbook are current and ongoing. This gives the instructor and the students the ability to update the case and analyze how the case is progressing.

The number of cases included in our textbook is greater than in other textbooks. We believe that professors need an adequate number of cases to make the course interesting and to eliminate the need to supplement the cases presented in textbooks. The quantity of cases presented allows instructors flexibility in adapting to various time formats for the class.

Our approach in writing this textbook was a practical and applied approach. We believe that students want real-world connections when studying in today's business environment. Business students today are more connected to the current issues than were the students of 20, or even 10, years ago. Today's students have access to immediate information and are computer literate. Given this, our textbook focuses on real-world examples and avoids fictional scenarios.

In addition, each chapter contains an opening ethical vignette and closing real-life ethical dilemma, which enhance the opportunity to develop discussion among the class members during the lecture period.

Key Dimension 3: Comprehensive and Diverse Selection of Ethics Topics (Better Coverage and Content)

With 13 chapters and 26 cases, we believe this is one of the most comprehensive business ethics textbooks in the marketplace. In addition to a comprehensive presentation of the ethical issues in the cases, our textbook has chapters on financial reporting, information technology, strategy, and the developing world that are not included in many of the other business ethics textbooks. Furthermore, we have comprehensive topic areas within each chapter that have been developed based on real business scenarios. This allows for a more focused, yet still comprehensive, presentation of the material in the chapters.

Key Dimension 4: A Central Theme Linking Each Chapter

We believe that it is necessary to have a central theme that is recurrent in each chapter. When reading textbooks, students often view each chapter as unrelated to the next. Therefore, our goal was to link each chapter with one common theme that focused primarily on the interaction of the firm with its various stakeholders. We stressed in each chapter that facing ethical dilemmas is a challenge and that there are consequences attached to each decision that is made in the business world. Our purpose was to present ethical challenges that students will face and help them see the consequences of their decisions. The challenges are discussed in the chapter material, and the consequences of actions/decisions are emphasized in the cases.

Structure of the Chapters

We believe that the 13 chapters in the textbook cover, in a comprehensive nature, the most relevant topics related to business ethics. A major topic of each of the chapters is introduced in the beginning of the chapter with a real ethical scenario. These scenarios are a good starting point in any lecture pertaining to that particular chapter. In addition, there are thought-provoking questions at the end of each chapter to also allow the instructor to facilitate discussion in the classroom. Furthermore, the end of each chapter includes a real-life ethical dilemma that will also enhance the discussion during the class period.

Chapter 1 introduces the student to the theoretical background of ethics by answering the critical question of why studying business ethics is important. By drawing on the teachings and beliefs of ancient philosophers, Chapter 1 provides business students with a strong theoretical support from a philosophical perspective. Chapter 1 also discusses how the legendary seven deadly sins are linked with unethical actions by individuals.

Chapter 2 addresses the evolving complexities related to business ethics. The chapter includes a discussion on the global issues related to business ethics. Chapter 2 continues by presenting a history of the study of ethics and discusses how integrity plays a role in ethical decision making. Chapter 2 also highlights the cheating culture and how cheating is perceived by different generational demographics.

In one of the cornerstone chapters, Chapter 3 presents the relationship between businesses and their stakeholders. Stakeholder theory is one of the integrating tools used to link the different chapters by identifying management's responsibility to others when a firm makes a decision. In addition, Chapter 3 highlights that the firm's responsibility is to be aware of its global social commitment to others and includes the role of triple-line reporting. Chapter 3 also discusses issues related to corporate reputation and corporate philanthropy.

Chapter 4 is devoted to the ethical issues related to financial reporting. Chapter 4 presents financial concepts such as creative accounting, insider trading, and Ponzi schemes. Chapter 4 also discusses the role of external auditors, who are responsible for verifying the accuracy of the financial statements and the components of the Sarbanes-Oxley Act. Chapter 4 also presents some common ways in which management can manipulate the financial statements to present desired but inaccurate financial data.

Chapter 5 addresses the issues of transformational and transactional ethical leadership and the role of corporate governance in protecting the rights of the firm's stakeholders. Chapter 5 also addresses issues related to the board of directors' actions.

Chapter 6 discusses strategic planning, corporate culture, and corporate compliance. Chapter 6 highlights the impact trust and power can have on how ethical and unethical decisions are made by management. Chapter 6 also addresses how decisions are made during an ethical crisis and disaster. The chapter presents the argument that ethical leadership links the ethical issues related to strategic planning and corporate culture. Chapter 6 also addresses the role of corruption in the operations of businesses globally.

Chapter 7 discusses ethical decision making and human resources. The chapter highlights Lawrence Kohlberg's model of moral development as well as two classic obedience-based studies developed at Yale and Stanford. Chapter 7 also discusses human resource issues such as workplace diversity, employee misbehavior, extreme jobs, sexual harassment and discrimination, office bullying, and employee monitoring.

Chapter 8 addresses ethical issues relating to the firm's interaction with the natural environment. This chapter presents a topic that is missing from many other ethics textbooks. Chapter 8 discusses how firms need to address the different environmental demands of various stakeholders. In addition, Chapter 8 also presents how firms can use the natural environment as an opportunity to enhance their competitive advantage. Furthermore, Chapter 8 addresses current topics such as environmental sustainability, climate change, and a firm's carbon footprint.

Chapter 9 also addresses a topic not discussed in many other ethics textbooks, which is the ethical issues relating to information technology. As today's students become more technologically savvy, they need to understand that new ethical issues are created with every technological advancement. Topics covered in Chapter 9 include privacy issues related to various stakeholders, the role of government regulations, big data, and the control of personal information.

Chapter 10 discusses ethical issues related to marketing and advertising. Topics for this chapter include green marketing, relationship marketing, consumer boycotts, social media, product recalls, false and misleading advertising, the role of marketing in the tobacco industry, and advertising aimed at children.

Chapter 11 addresses another ethical focus not common in other business ethics textbooks: ethical issues related to the developing world. Topics for Chapter 11 include the bottom of the pyramid market, social entrepreneurship, human rights, poverty, hunger, and the UN Millennium Development Goals.

Chapter 12 examines the role of a code of ethics and the establishment of ethical guidelines to assist decision makers in making the correct ethical decisions. Chapter 12 examines the benefits of a firm having a strong code of ethics and also presents content areas that should be considered in a code of ethics. Chapter 12 also presents some global ideas that firms could integrate into their own ethics philosophy.

Chapter 13 concludes the chapters in the textbook by examining how firms can evaluate their ethical commitment. Chapter 13 highlights the importance of a strong ethical commitment by presenting data pertaining to cases of fraud that occur globally. The chapter also addresses the establishment of a comprehensive ethical training program to ensure that employees understand their responsibilities. Chapter 13 addresses the importance of having a corporate ethics officer who is ultimately accountable for the ethical conduct of the employees. Also addressed is the issue of firms developing opportunities for employees to be whistle-blowers when they suspect unethical activities are occurring within the firm.

Structure of the Cases

The cases were selected based on their relevance, timeliness, and the representation of a broad range of ethical issues globally. Seven of the 26 cases deal with firms headquartered outside the United States. The locations of these cases are Germany (Siemens), Italy (World Food Programme), England (Rupert Murdoch and News Corporation and BP), South Africa (De Beers), and Japan (TEPCO and Olympus). Furthermore, two cases, Apple and Mattel, address the issue of outsourcing their manufacturing operations to companies located in China. In addition, the companies in the cases represent a number of diverse industries, including telecommunications, food and food distribution, financial services, aerospace and defense, automobiles, toys, mining, media, energy, durable goods, pharmaceuticals, music, and retailing. Furthermore, the cases highlight a number of ethical issues, including financial and wire fraud, bribery, lack of corporate governance, manipulation of data, perjury, Ponzi schemes, obstruction of justice, lying to government officials, violations of government regulations, product recalls, and the death and mutilation of employees and customers.

The authors believe that this textbook represents a comprehensive review of current ethical issues from a global perspective. The 13 chapters and 26 cases will allow any instructor the ability to fully integrate current ethical issues in the classroom in an effective manner. Using *Understanding Business Ethics: Third Edition* in the classroom will enlighten students to the complex ethical issues they will face in the business world.

What Is New for the Third Edition

1. **An update of all 13 chapters and 26 cases**.
2. **The addition of opening vignettes** including Sir Nicholas Winton, money laundering at HSBC, "nut rage" and Korean Airlines, environmentally sustainable billboards in Peru, *The Interview* movie and North Korea, Samsung and child labor, and the Hillsborough soccer disaster.
3. **The addition of cases** on Disney's CSR and the GM ignition recall issue.
4. **The addition of a section on barriers to an ethical organization** reflecting challenges organizations must address to ensure the ethical behavior of their employees.
5. **The addition of a section on NGOs as stakeholders** and an expansion of the discussion on CSR including a global approach, the presentation of different models of CSR, implementation of CSR, and the role of employee engagement and CSR.
6. **The addition of a section on insider trading**.
7. **The addition of a section on extreme jobs**.
8. **The addition of a section on ethical issues related to big data and social media**.

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• Chapters and Corresponding Cases Matrix •

		Part I			Part II				Part III				Part IV	
		Chapter 1	Chapter 2	Chapter 3	Chapter 4	Chapter 5	Chapter 6	Chapter 7	Chapter 8	Chapter 9	Chapter 10	Chapter 11	Chapter 12	Chapter 13
Case #	Name	Individual Ethical Duty	Individual Ethical Behavior	Stakeholder Corporate Social Resp.	Financial Reporting	Leadership Corporate Governance	Strategic Planning Culture	Decision Making Human Resources	Environment Sustainability	Information Technology	Marketing Advertising	Developing Countries	Code of Ethics	Evaluating Ethics
1	Bernie Madoff	Z	Z	Z	Z	**Z**	**X**	Z					Z	Z
2	Siemens	X	X	Z	Z	Z	Z	X					X	X
3	TOMS Shoes	Z	Z	Z		X	Z	X	Z		Z	Z	X	X
4	Disney	Z	Z	Z		Z	Z	Z	Z	X	Z		Z	Z
5	World Food Programme	Z		Z		Z	Z	X	Z			Z		
6	News Corporation	Z	Z	Z		Z	Z	Z		Z	Z		Z	Z
7	Enron	Z	Z	Z	Z	Z	Z	Z					Z	Z
8	Google	Z	X	Z		Z	Z	X		Z	Z		X	X
9	HealthSouth	Z	Z	Z	Z	Z	Z	Z			X		Z	Z
10	De Beers	Z	Z	Z		Z	Z	Z	X		Z	Z	X	X
11	Interface	Z	Z	Z		Z	Z	Z	Z		Z		**Z**	Z
12	Facebook	Z	Z	Z		Z	Z	Z		Z	Z		Z	Z
13	Mattel	X	X	Z		Z	Z	Z	X		Z	Z	Z	Z
14	GM	Z	Z	Z	Z	Z	Z	Z			Z		Z	Z
15	McWane	Z	Z	Z		Z	Z	Z	Z				Z	Z
16	Merck	Z	Z	Z		Z	Z	Z			Z		Z	Z
17	Music Industry	Z	Z	Z		Z	Z	Z		Z	Z		X	X
18	Apple	Z	Z	Z		Z	Z	Z		Z	Z	Z	X	X
19	Patagonia	Z	Z	Z		Z	Z	Z	Z		Z	Z	Z	Z
20	Tokyo Electric Power	Z	Z	Z		Z	Z	Z	Z				Z	Z
21	Tyco	Z	Z	Z	Z	Z	Z	Z					Z	Z
22	Olympus	Z	Z	Z	Z	Z	Z	Z					Z	Z
23	Wal-Mart	Z	Z	Z		Z	Z	Z	X		Z	Z	Z	Z
24	WorldCom	Z	Z	Z	Z	Z	Z	Z		X			Z	Z
25	BP	Z	Z	Z		Z	Z	Z	Z		Z		Z	Z
26	Greyston Bakery	Z	Z	Z		Z	Z	Z			Z		Z	Z

Legend

Z = Primary Topic

X = Secondary Topic

PART I

FROM ETHICAL FOUNDATION TO ADDRESSING STAKEHOLDER NEEDS

1

The Foundation of Ethical Thought

The biggest corporation, like the humblest citizen, must be held to strict compliance with the will of the people.

—**Theodore Roosevelt**

We demand that big business give people a square deal; in return we must insist when anyone engaged in big business honestly endeavors to do right, he shall himself be given a square deal.

—**Theodore Roosevelt**

Chapter Objectives

After reading and studying Chapter 1, students should be able to

1. Define the terms *ethics* and *business ethics*.
2. Describe the different types of ethical examinations and frameworks.
3. Explain the seven deadly sins and their relationship to ethical behavior.
4. Discuss the Global Business Standards Codex with respect to a company's responsibility.

Panera Cares Community Cafés: A Loaf in Every Arm

The foundation arm of Panera Bread has established the "Panera Cares community café" program. A Panera Cares café is a café in which the customers decide how much to pay for their meal. The menu is consistent with a regular Panera Bread café, and for those customers with limited financial resources, the café will exchange one hour of volunteer work for a meal. Panera Bread's philosophy is that "at the end of the day, this café isn't about offering a handout. It's about offering a hand up to those who need it."[1] Located in Portland, Oregon; Clayton, Missouri; Chicago, Illinois; Boston, Massachusetts; and Dearborn, Michigan, the Panera Cares locations are strategically selected based on the needs of the local community and infrastructure variables such as easy access via public transportation. There are no prices or cash registers; there are only suggested donation levels and donation bins. Panera Cares café is run by the Panera Bread Foundation, a registered charitable organization. With the identification of a broad customer target market, Panera Cares states that its mission is to "make a difference by offering the Panera Bread experience with dignity to all—those who can afford it, those who need a hand up, and everyone in between."[2] Customers who have the means to pay for the meal like the option of deciding how much to contribute. For example, one day the customer may be generous and pay above what the price of the meal would cost in a traditional Panera Bread, but other times the customer may only have a few dollars on hand to pay for the food. In fact, the majority of the customers pay the retail value of the food or more. Panera Bread has calculated that approximately 60% of the customers pay the retail value, 20% pay more than the retail value, and 20% pay less than the retail value. Panera Bread has found that the communities surrounding the Panera Cares cafés have embraced the concept that this café will ultimately survive because of shared responsibility. The average Panera Cares café will generate revenue of $100,000 monthly and yield a "profit" of $3,000 to $4,000 a month. The profits are used to fund job training programs for high-risk young people. The graduates of the job training programs are offered work at other traditional Panera Bread cafés. Panera Bread founder Ronald Shaich stated that there are a few people that abuse the system but that "More people are fundamentally good. . . . People step up and they do the right thing."[3]

Introduction

As human beings, we are accountable for our actions. Our day-to-day interactions in every activity we participate in affect both the human and the nonhuman elements of our world. As a result, as employees of a business organization, we take on the additional burden of also being responsible for the actions of the business organization. An underlying component in guiding our behavior both inside and outside a business setting is the role of ethics.

Ethics can be defined as the values that an individual uses to interpret whether any particular action or behavior is considered acceptable and appropriate. Some questions that could be asked to help identify the values needed to interpret the particular action or behavior could be the following:

1. Is the behavior or action consistent with the overall basic duties of the individual in question?
2. Does the behavior or action acknowledge and respect the underlying rights of all the individuals who will be affected by the action?
3. Would the behavior or action be considered the best practice in that specific set of circumstances?
4. Does the behavior or action match the overall entrenched beliefs of the individual?[4]

Business ethics can be defined as the collective values of a business organization that can be used to evaluate whether the behaviors of the organization's collective members are considered acceptable and appropriate. To understand what is acceptable and appropriate for individuals, their moral values must be identified and supported.

The Role of Morals

The moral values of an individual comprise three components, which are the individual's principles, the individual's character, and the consequences of a particular action. Although each of these components is distinctive, there are also numerous interactions among the components.[5] Individuals rely on their own principles and standards of conduct to determine what course of action to take. Through various sources, such as religious affiliations, individuals are "taught" to determine "right" from "wrong." In addition, being a member of society "teaches" individuals what are acceptable principles or moral standards based on the moral values of the society. The moral values of the individual are based on his or her character. This component includes the strength of character, virtue, and integrity. Strength of character is based on adhering to one's moral beliefs even if it will result in a great cost for the individual. *Virtue* embodies characteristics such as prudence, fairness, trustworthiness, and courage. *Integrity* can be described as the ability to have a clear conscience and be at peace with your actions. The consequences of the individual's actions focus on the moral importance to the "ends" as well as the "means." You have to strive for a morally positive outcome and not just have positive moral actions. The result is as important as the avenue taken to reach that result.[6] The ends and the means are critical issues related to business ethics as they are incorporated into a free enterprise society.

Is Greed Good?

> *The point is, ladies and gentleman, that greed—for lack of a better word—is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms—greed for life, for money, for love, knowledge—has marked the upward surge of mankind. And greed—you mark my words—will not only save Teldar Paper, but that other malfunctioning corporation called the USA.*[7]
>
> —Gordon Gekko, *Wall Street*, 1987

In the movie *Wall Street*, Michael Douglas plays the role of Gordon Gekko, who is a corporate raider. A corporate raider such as Gekko buys a majority of stock in underperforming companies in which the total market capitalization of the company is below the value of the assets. This means that the asset value of the company is higher than the total value of outstanding stock of the company. Gekko, like other corporate raiders of the time, would buy a controlling interest in the company and then break up the company by selling the assets separately and would capture the arbitrage difference between the higher asset price and the total market capitalization. While attending the annual meeting of a company in which he had just become the majority shareholder, Teldar Paper, Gekko presented this speech to the stockholders about the virtues of greed. This section of the speech, which lasts less than 45 seconds on screen, identifies the true underlying conflict that is inherent in a capitalistic economy and is the basis of any discussion related to the value of business ethics. The free enterprise system is based on motivating individuals to be productive. The more productive they are, the more resources they are able to accumulate. Thus, according to Gekko, individual self-interests and greed are integral for the success of a capitalistic society. Individuals must understand and agree to the rewards of their actions to meet the expectations of their jobs. As Gekko states, people are rewarded for their efforts through this competition of being better than others. As with any competition, however, there are both winners and losers. The ideals of business ethics attempt to address this distinction of "winners" and the rest of society. Although everyone has the right and freedom to accumulated resources based on their efforts, there is a line at which the self-interests of the individual do not supersede the interests of society. The establishment of laws and regulations control this type of behavior. Furthermore, as free will can be used to accumulate resources, it can also be used to determine what is perceived to be ethical or not. For example, it may be legal to have young girls sew shirts together for the equivalent of one dollar a day in developing countries such as Bangladesh and India; however, the question each company that considers this option must also ask is whether this action is ethical.

The study of business ethics is not always a black-and-white or a yes-or-no decision. The complexity of the issue must be considered by each decision maker as he or she makes decisions that affect the company and other stakeholders in society. For example, the opening vignette on the Panera Cares community cafés highlights how one company has addressed hunger in the community by allowing the customers to determine how much they would pay for the meal or provide one hour of volunteer work in exchange for the meal. Therefore, Panera Bread determined that the "cost" of offering these meals at below the traditional retail cost is more than offset by the company's outreach commitment to local communities. This is an example of the complexity surrounding the concept of business ethics and underlies why studying ethics is important.

Why Is Studying Ethics Important?

Business ethics can be described as having many shades of gray rather than being black and white. Within a corporate environment, individuals are always being tested to determine the direction of their moral compasses. In a highly completive global environment, there are many Gordon Gekkos who will do whatever it takes to win, even if it includes unethical actions. For many individuals, the ends rather than the means are important. As long as they "win" the competition, they do not care what means they use to obtain the "victory."

As a result, each individual decision maker is vulnerable to pressures, both from peers and superiors, that may not coincide with his or her ethical beliefs. A 2012 study by Ernst & Young (E&Y)[8] demonstrates how entrenched unethical behavior can be within corporations. More than 1,700 executives from 43 countries were surveyed by E&Y. Fifteen percent of the respondents stated that they would be willing to make cash payments in the form of a bribe to obtain business from a customer. In addition, 39% of the executives responded that bribery and corruption are common in doing business in their countries. Furthermore, 24% of the executives stated that bribery and corruption had increased due to the global economic downturn. Five percent of the executives admitted that they would be willing to misstate financial performance to achieve the company's objectives, which was an increase from 3% in the previous study. The results of the study also show that executives from numerous companies have little if any control systems in place to stop unethical behavior. Of the respondents, 13% stated their firms did not perform regular internal audits, 23% of the respondents stated their company does not have a regular audit from an external auditor, and 44% of the respondents worked for companies that did not have a whistle-blower hotline. Furthermore, 81% of the executives stated that their companies had corporate policies addressing corruption issues, yet only 42% of the executives had received training on the anticorruption policies. Each individual must know his or her own ethical beliefs, as well as those of his or her employer. To understand how ethics play a role in an individual decision-making process, it is important to understand that there are different types of ethical examinations. Information pertaining to ethical issues can be classified as descriptive, analytical, and normative.

The Foundation of Ethical Theory

Types of Ethical Examinations

Descriptive ethics is the presentation of facts related to the specific ethical actions of an individual or organization. Descriptive ethics is used when an observer wants to understand the course of events that generated the ethical issue. Within the descriptive ethics context, there is no interpretation of the facts or assumptions concerning why certain courses of action took place.

The second way in which ethics can be examined is through an analytical lens. *Analytical ethics* can be described as understanding the reasons a course of action that may have an ethical impact took place. Analytical ethics, or metaethics, moves from the how and when inquiry, which is the basis of the descriptive ethics viewpoint, to inquiring why something is happening. Hypotheses can be developed from analytical ethics to help us understand the relationship between different variables affecting ethical behavior. From a legal standpoint, analytical ethics would address the "motive" behind the actions instead of just being satisfied with a description of the actions.

The third approach to view ethics is from a normative perspective. *Normative ethics* can be defined as a prescribed course of action that attempts to ensure that ethical behavior will be followed in the future. Normative ethics moves the evaluation of the ethical behavior from a past to a future tense. Normative ethics presents information on what should be done in the future rather than what was done in the past, which are both part of descriptive and analytical ethics. This prescriptive approach allows employees and managers to address potential ethical issues before they occur.[9]

An Example of Ethical Examinations Using Enron Executives

The use of descriptive, analytical, and normative ethical examinations can be used to describe the actions of the two former CEOs of Enron Corporation, Kenneth Lay and Jeffrey Skilling.

Descriptive The descriptive examination is the presentation of the facts of the unethical behavior at Enron. These facts include having Enron manipulate the financial statements of the company using complex off–balance sheet transactions. Lay and Skilling sold Enron stock after they knew the company was going to collapse, yet they told its stockholders that the stock would continue to go up in price. The harassment by Enron executives of the whistle-blower, Sherron Watkins, who was trying to help the company and the employees, is another example of the facts of the case.

Analytical The analytical ethical examination of the Enron collapse includes, in part, trying to understand why Lay and Skilling acted unethically. Through their individual cognitive lenses, Lay and Skilling stated (and did even after their convictions) that they had done nothing wrong. They were the CEOs; they received agreement from their external auditor, Arthur Andersen, about their off–balance sheet accounting; and were allowed to sell stock when they wanted to but still stated that the stock price was going to go up. Alternatively, it could be argued that Lay and Skilling knew their actions were unethical, yet they thought they were too smart or too clever to be caught. One of the many creeds at Enron was that the employees were always the best and brightest and can out-negotiate and outthink anyone—whether it was a company, the state of California, or the U.S. Department of Justice.

Normative There has been a direct normative response to the Enron collapse. The design of the Sarbanes-Oxley (SOX) Act was, in part, a direct response to the unethical activities at Enron. Government regulations from SOX now impose limits on how long external auditors can work for the same client, barred having the external auditor also provide consulting advice (which occurred between Arthur Andersen and Enron), forced top executives including the CEO to disclose stock transactions within 2 days of the event, and strengthened the power of the board of directors to challenge the actions of the CEO. SOX reinforces the belief that every cloud has a silver lining. Even though many companies initially complained about the cost and red tape associated with SOX, more than 12 years after its passage, SOX has fortified the image and belief that the United States has the strongest due diligence and protection of investor rights in the world.

Teleological Frameworks

Although types of ethical examinations focus on information and how decision makers use information, teleological ethical frameworks focus on explaining the conduct of the individual from a philosophical perspective. Teleological frameworks focus on the results of the conduct of the individual. Derived from the Greek word for fulfillment, *telos*, these frameworks focus on the ramifications, positive and negative, resulting from the actions and conduct of individuals. The three teleological frameworks are ethical egoism, utilitarianism, and Sidgwick's dualism.[10]

Ethical Egoism

Although Thomas Hobbes has been credited with the development of ethical egoism, it can be said that Plato may have actually been the father of the ideas that have evolved into this framework. Contemporary writers such as Ayn Rand have embraced the concept of focusing on each individual's self-interest. Ethical egoism is based on the belief that every individual should act in a way to promote himself or herself if the net result will generate, on balance, positive rather than negative results.

Derived from the Latin word *ego*, which is defined as one's self, ethical egoism allows self-interests to play a role in the actions of the individual as long as there are also positive benefits for others. Of course, individuals who abide by the philosophy of ethical egoism may have different interpretations about what would be considered, on balance, an action that is good for others as well as themselves. Some ethical egoists may argue that based on their own perceptions, all of their actions, on balance, generate more positive than negative benefits. This level of rationalization may evolve into the justification that pursuing a person's self-interest is necessary to generate a positive outcome for others.

The supporters of ethical egoism argue that this framework is the only ethical model that captures the essence of motivation within individuals. Without self-interest, ethical egoists argue, why would someone do anything? As a result, ethical egoists argue that their philosophy supports a "win-win" proposition. An individual will reward his or her self-interest while yielding benefits for the rest of society. Those who argue against ethical egoism state that part of the connection of the actions that motivate an individual also require certain obligations of an individual.[11]

Utilitarianism

The utilitarianism movement started in England in the 18th century. Originally developed by Jeremy Bentham in his *Introduction to the Principles of Morals and Legislation* in 1789 and John Stuart Mill's *Utilitarianism* in 1863, utilitarianism holds the belief that any action of an individual will be based on providing the greatest good for the greatest number of people. Derived from the word *utility*, utilitarianism is based on the principle of utility: Each person's actions add to the overall utility of the community affected by his or her actions. As a result, utilitarians focus on the net result of their actions instead of the means or motives that generated the reason for their actions.

Utilitarianism can be based on single acts of individuals (act utilitarianism) or on guiding behavior indirectly through an evaluation of ethical conduct via rules and procedures (rule utilitarianism).[12] Those who support utilitarianism state that this theory is the only one that captures the essence of benevolent behavior. Without utilitarianism as a framework, supporters argue, people will not act to help others if the actions don't benefit the self-interests of the individuals. Those who oppose the utilitarian viewpoint state that it is difficult to ever properly evaluate the effectiveness of utilitarianism because it is practically impossible to determine what would be the greatest good for the greatest number. These people also argue that there will be some inherent contradictions with this theory. Stating that the actions support the greatest good for the greatest number begs the question whether the minority that does not receive the greatest good would be treated unfairly.[13]

Sidgwick's Dualism

First published in 1874, *The Methods of Ethics* by Henry Sidgwick attempted to bridge the gap between the two competing ethical frameworks of ethical egoism and utilitarianism. Sidgwick argued that a common ground could be found between the two theories. Hence, Sidgwick's dualism was developed. At the core of the argument is that both previous theories had elements of using cost–benefit analysis to help analyze the actions of individuals. Sidgwick's dualism attempted to resolve the fundamental difference of whether the actions for one's self-benefit affect just the individual or others. Sidgwick argued that utilitarianism is a foundation component of any ethical framework, which he called *rational benevolence*. However, he also argued that the self-interest of ethical egoism must be included in the ethical framework he called *prudence*. He argued that rational benevolence is necessary in an individual's actions, but he also stated that prudence is necessary because the happiness of the individual is the common goal of the action and it would not be logical for an individual to sacrifice his or her own happiness to help others. Therefore, he argued that a harmony can exist among rational benevolence and prudence viewpoints to have a rational ethical model. He concluded by stating that there had to be some reconciliation between the two theories to explain how individuals act in their self-interest as well as in the interests of others.[14]

These frameworks can be used to present different arguments from a business perspective. The supporters of the ethical egoism theory argue that businesses should focus solely on their self-interests and maximize their level of profitability by developing a strong competitive advantage. Those who support the utilitarianism theory accept government intervention as a way to protect the interests of the majority against the decisions of the minority within any given business. In his book *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Adam Smith presented an argument that could support Sidgwick's dualism. Smith argues that the greatest good for the greatest number is achieved by individuals pursuing their self-interests in the marketplace.[15]

An Example of Teleological Frameworks Using Panera Cares

The opening vignette describes how Panera Bread is making a commitment to the local community by offering meals through its Panera Cares programs for those individuals that cannot afford to pay the full price for a meal. The actions by Panera Bread would be different based on the teleological frameworks.

Ethical Egoism The simple response to Panera Bread based on ethical egoism is that it would not have established Panera Cares programs if the company followed an ethical egoism approach. By solely focusing on the self-interests of the individuals, the self-interests would not support "giving away" food and profit without maximizing the potential financial return of the meal. Therefore, Panera Cares would not be considered a viable use of the resources of Panera Bread because they are not maximizing their financial investment.

Utilitarianism It could be argued that Panera Cares is a utilitarian-focused program. Many more members of the local community are being fed because of the availability of the Panera Cares program. In addition, the ability to trade one hour of volunteer work for a meal allows underproductive people in the community to be used to the benefit of Panera Bread and the individual. However, it could also be argued that Panera Cares is not a "pure" utilitarian project because Panera Bread expects people to pay for their food and expects that the payments will be close to the actual cost of the food.

Sidgwick's Dualism Therefore, it could be argued that Panera Cares most resembles a project that matches the middle ground between ethical egoism and utilitarianism, Sidgwick's dualism. Under Sidgwick's dualism, there are benefits of both serving self-interests and providing the greatest good to the greatest number. Panera Cares seems to be a better fit with Sidgwick's dualism. It is utilitarian in that it is serving the needs of many who would otherwise not be served, yet Panera Bread still collects money from the customers with the subtle peer pressure to give close to the actual food amount if the customer is able. Therefore, projects such as Panera Cares serve as a reminder that firms can use various methods to serve others as well as themselves. Although the teleological frameworks focus on how the decisions made by the individual achieve the desired results, an alternative philosophical framework focuses on the duty of the individual.

Deontological Frameworks

As opposed to teleological frameworks, which focus on whether the results are favorable or not, deontological frameworks focus on the duty or obligation in determining whether the actions are right or wrong. The term *deontological* is derived from the Greek word *deon*, which means *duty*. There are three deontological frameworks: existentialism, contractarianism, and Kant's ethics.[16]

Existentialism

Existentialism is based on the underlying belief that the only person who can determine right and wrong is based on the free will of the person making the decisions. Each individual determines his or her actions and is ultimately responsible for the consequences of those actions. Philosophers such as Søren Kierkegaard, Friedrich Nietzsche, and Jean-Paul Sartre have all embraced existentialism as the most viable way to connect duty with actions. Through authenticity of their actions, individuals are able to develop their own sense of personal virtue. Existentialism does not use universal principles because each individual determines acceptance of his or her actions.[17] As Polonius advises his son, Laertes, in William Shakespeare's *Hamlet*, "This above all: to thine own self be true, and it must follow, as the night the day, Thou canst not be false to any man."[18]

Contractarianism

Contractarianism, or social contract theory, is based on the belief that all individuals agree to social contracts to be a member within a society. This theory is based on the work of John Locke's 1690 book, *Two Treatises on Government*; Jean-Jacques Rousseau's *The Social Contract, or Principles of Political Right*, published in 1762; and, more recently Garrett Hardin's 1968 book, *The Tragedy of the Commons*, and John Rawls's 1971 book, *A Theory of Justice*.

Contractarianists hold the view that membership in society comes with certain duties and responsibilities. Individuals agree to the norms of society by establishing a social contract with the other members of the society. The underlying principle of contractarianism is to have guided principles that are fair to everyone. If the principles are fair, everyone in the society should agree to abide by the principles. Rawls proposed that individuals in a society contract freely to have economic and political components that help guide our day-to-day living. Rawls argued that everyone should have equal rights and duties. Furthermore, he stated that if there are social and economic inequalities, it would be acceptable to the society only if these inequalities were able to generate benefits for everyone in society. Rawls challenged the utilitarianism philosophy by stating that it would not be acceptable to focus on actions for the greater good if the minorities do not also benefit from the decision.[19]

Kant's Ethics

In his book *Foundations of the Metaphysics of Morals* (1785), Immanuel Kant discusses ethical decisions based on the free will of the individual. Kant argues that the free will to make decisions that were considered rational needed to be converted into a universal will. Kant's ethical view is considered a dualism because it attempts to bridge the gap between the existentialist and contractarian points of view. The linkage Kant made was to consider his principle pertaining to free will based on the philosophy that an individual should act in a way in which one would expect everyone to act if it were a universal will and to treat other individuals as the end, not the means to an end. As a result, Kant rejects the view of using heuristics of "gut feelings" as a justification for a decision because these findings are not always predictable nor are they acceptable. In addition, the rationale for not committing an illegal act such as dumping dangerous chemicals into a water source should not be based on the legal requirements or the potential negative image that would be created for the company. Kant would argue that the manager should consider only whether his free will action to dump the toxic waste would be acceptable as a universal will in which any company or individual could dump any chemical he or she wanted into any water supply. Kant argues that this should be the only way in which managers should consider their decisions.[20]

Using WorldCom as an Example of Deontological Frameworks

Existentialism Former WorldCom CEO Bernie Ebbers claimed that he did nothing wrong. Even after his conviction, he stated that he did not know what type of fraudulent activities were occurring at WorldCom. From an existentialist perspective, Ebbers is justifying his actions based on his individual interpretation of the value of his actions. Ebbers's interpretation was that he did not do anything wrong; therefore, he did nothing wrong.

Contractarianism By becoming a publicly traded company, WorldCom agreed to certain social norms. Those norms included being truthful when disclosing the financial performance and identifying any actual or potential problems to the owners and employees of WorldCom. This norm of transparency assures society that the information that was presented by WorldCom is accurate and timely. Of course, WorldCom broke that trust by violating this norm by not being transparent.

Kant's Ethics Cynthia Cooper is a good example of someone who used Kant's ethics. By ignoring the requests of her superiors, Ms. Cooper began an investigation into financial transactions occurring at WorldCom. She uncovered the massive fraud that was occurring at WorldCom. This is a Kant's ethics approach because she believed that her actions to discover the fraud would be done by others as part of a universal will under the same set of circumstances.

Seven Guiding Principles to Support Ethical Actions

As with anyone trying to do what is right and ethical, it helps if there are guiding principles to help direct our actions. In his book *The Right and the Good* (1930), W. D. Ross argued that individuals should follow certain principles that are considered part of the prima facie obligation an individual has to society. Ross identified in his book that there could be a conflict between the duties and obligations of specific circumstances and that actions may override an individual's actual duty. For example, Ross explained that telling a lie or breaking a promise to an individual may be acceptable in certain circumstances. The circumstances help develop the distinction between a prima facie duty based on that specific set of circumstances and an actual or absolute duty.

Ross presented seven basic principles to support his ethical philosophy. By following these principles, individuals develop a level of intuition that becomes incorporated in their decision-making process. The seven guiding principles are as follows:

1. **Fidelity:** An individual needs to keep explicit and implicit promises.
2. **Reparation:** An individual must act on repairing the consequences for previous wrongful acts.
3. **Gratitude:** An individual must be able to show gratitude for the kindnesses that others have given him or her.
4. **Justice:** An individual should try to see that any goods are fairly distributed.
5. **Beneficence:** An individual should focus on trying to improve the lives of others.
6. **Self-improvement:** An individual should improve oneself by focusing on virtue and intelligence.
7. **Noninjury:** An individual should not cause any harm to others.

Ross draws on the work from previous theories. Ethical egoism is represented in self-improvement, and utilitarianism is represented in beneficence and noninjury. Furthermore, existentialism is represented in fidelity, and self-improvement and contractarianism are represented in fidelity and justice.[21] One of the founding areas of guidance for those unsure about their ethical standing is referred to in the seven deadly sins.

The Seven Deadly Sins

For centuries, human behavior has been evaluated based on seven deadly sins. The seven deadly sins are lust, gluttony, greed, sloth, wrath, envy, and pride.

Lust

Lust can be defined as the trait of an individual who has obsessive and compulsive continuous thoughts of sexual desire. The thoughts of sexual drive overtake all other functions of the individual in the attempt to satisfy the individual's sexual appetite. Dante referred to lust as the "excessive love of others."[22] This excessive love is considered a sin because it supersedes the love and devotion the individual should have with God.[23] In Dante's *Inferno*, lust is included within the second circle of Hell, and the individuals are sinful because "they subordinate reason to desire."[24]

Gluttony

Gluttony is overindulgence and overconsumption of anything good to the point that the good is wasted when it is consumed. The sin related to gluttony is the rationale that someone who is not as well off would have received a much larger positive benefit had the good not been wasted. For example, a person who drinks 10 glasses of wine could have generated a benefit for nine other people if he or she had drunk just one glass. In addition, gluttony allows animal instincts such as appetite to control the behavior of the individual. The net result is that the individual who is gluttonous is one who puts himself before others with his or her actions, which is considered sinful and a distraction from a spiritual life.[25]

Greed

Greed, or avarice, is also considered a sin of excess like lust and gluttony. *Greed* is an excessive desire by the individual to obtain wealth, status, and power. In addition, greed can be considered the continuous accumulation of material wealth without regard for the methods used to obtain such wealth. Furthermore, miserliness and unethical business practices are considered part of the sin of greed. Greed drives the individual to "worship" material goods instead of spiritual goods. The worshiping of "false idols" allows the individual to focus only his or her self-interests with no consideration of alternative paths that would help others in society.[26] Dante, who identifies greed in the fourth circle of hell, criticizes individuals who are driven by greed, or other misers who spend their material wealth too freely. Dante explains that both are excessive behaviors, and the individual ignores the value of moderation.[27]

Sloth

By far the least familiar of the seven deadly sins, the definition of *sloth* as a sin has evolved over time. Initially, the term *sloth* was described as an individual's apathy, sadness, and lack of joy in his or her everyday life. The definition was refined to include when individuals fail to use their full potential of talents and gifts they were given as humans. However, a more modern definition of *sloth* includes being lazy and indifferent about one's actions.[28]

Wrath

Wrath can be defined as an uncontrollable level of anger or rage. Anger can lead to actions such as impatience, revenge, and vigilantism. Without forgiveness, wrath can dominate the actions of the individuals for the rest of their lives. To focus on revenge means that the individual is not satisfied with the current set of circumstances and will not rest until those circumstances have changed. Dante referred to wrath as "love of justice perverted to revenge and spite."[29]

Envy

The sin of envy or jealousy relates to focusing on one's self-interests in the desire to obtain qualities or possessions of another person. Dante describes envy as the "love of one's own good perverted to a desire to deprive other men of theirs."[30]

Pride

Pride, vanity, and *hubris* refer to competitively measuring one person's characteristics or actions based on the characteristics or actions of another person. The sin of pride relates to being considered above or "superior" to another person. It is considered the most serious of the seven deadly sins because it is the source of the other six sins. By having a desire to be superior and more important than others, the individual focuses solely on his or her self-interests and fails to acknowledge the good work of other people.

Although the seven deadly sins have been a traditional measure of the virtue of human beings based on their actions, the moral values of an individual can be identified in numerous ways. Philippe Foot believed that virtues could be measured and compared objectively from one person to another. The measurement of the virtue of the individual decision maker is the basis of the "trolley problem."

The Trolley Problem

A runaway trolley is speeding out of control down a hill. The brakes do not work, so it cannot be slowed down. At the end of the track are five people who will be killed if the trolley hits them. The only choices the driver of the trolley has are (1) do nothing and kill the five people or (2) pull a lever that would result in the trolley shifting to another set of tracks in which one person who is unaware of the runaway trolley would be killed. As the driver, what would you do?

If you decided that killing one was better than killing five people, then Judith Jarvis Thomson has an alternative scenario that may yield alternative results. A surgeon has been attempting to help five people who all need a different organ transplant. A patient comes in for a routine checkup, and the surgeon realizes that the patient's organs would be compatible with all five of the patients who need the organ transplants. In this scenario, would it be morally correct to save five people by killing one person? Of course, the distinction is that in the trolley example, the driver has to decide between two negative duties, while the surgeon has to decide between a negative and positive duty.

Thomson added two additional scenarios pertaining to the trolley problem. Another scenario is based on having a bystander observe the trolley going down the tracks and having to make the decision to either doing nothing and five people end up dead or diverting the trolley and assume that he or she would be responsible for the death of the one person. The other scenario is based on the circumstance in which a bystander from a bridge observes the trolley going down the track and realizes that only a large heavy object could stop the trolley if it is thrown in front of the trolley. The bystander looks around the bridge and the only object big enough to stop the trolley is an overweight man also standing on the bridge near him. Would the bystander try to throw the overweight man over the bridge to stop the trolley?[31] These are the types of ethical dilemmas that individuals must address throughout their lives. As a result, individuals can benefit by having different ethical principles to help guide them during their lifetimes.

Global Business Standards Codex

In a study to develop a framework to evaluate the conduct of companies around the world, the Global Business Standards Codex was established.[32] This codex captures the eight major underlying principles in which ethical behavior can be interpreted and evaluated. The eight ethical principles are fiduciary, property, reliability, transparency, dignity, fairness, citizenship, and responsiveness.

Fiduciary Principle

As part of the legal structure of a business organization, each officer and director of a company has a legal fiduciary duty to act in the best interests of the stakeholders and other employees within the firm. Furthermore, there is also an implied fiduciary duty for every employee within the organization to act in a way that generates positive benefits for the firm. The traditional components of fiduciary duty include ensuring that there are no actual or potential conflicts of interest given the actions of the employee. It also is implied that each employee will not put his or her self-interests above the overall interests of the firm. Additionally, it is assumed that employees will perform good-faith efforts in carrying out each of their responsibilities, will be prudent with the company's resources, and will exercise due diligence regarding the quality of their work. Specifically, *due diligence* includes ensuring that the employee actively promotes the interests of the company in a diligent and professional manner. The employee is also expected to develop a sense of loyalty to the firm. From a loyalty perspective, the employee is expected to use his or her job title and the company resources available to him or her for company purposes only. A loyal employee is expected to report any ethical violations and conflicts between the employee's own interests and the company's interests. A loyal employee is expected to refuse any type of gift that could be considered excessive within a business relationship context.[33]

Property Principle

The property principle is based on the belief that every employee should respect property and the rights of the owners of the property. Traditional examples of violations of this principle include theft, misappropriation of funds, and wasting resources. This principle has been expanded to intangible property and now includes the misappropriation of intellectual property or other types of information. An employee is expected to protect the tangible and intangible assets of the firm. In addition, the employee is expected to be a good steward to the resources the employee has access to. As a result, it is the duty of the employee not to damage or steal any assets or allow a third party to take any of the company's tangible or intangible assets or steal the assets of another firm. Therefore, it is the employee's responsibility to prohibit any misappropriation of company funds, to not allow the firm's proprietary information to become available to a competitor, or to obtain access to a competitor's proprietary information.[34]

Reliability Principle

The reliability principle is based on the belief that it is the employee's responsibility to honor the commitments he or she has made to the firm. Employees are expected to follow through with the promises and commitments that have been made between the employees and the firm. Traditional violations of the reliability principle include breaching a promise or contract or not fulfilling a promised action. Employees are expected to do their best to make a good-faith effort to fulfill all the commitments that the employee has promised. The reliability principle also includes ensuring that suppliers and other business partners are paid in a timely manner.[35]

Transparency Principle

The transparency principle is based on the belief that every employee should conduct business in a truthful and open manner. It is expected that the employees will not make decisions based on personal agendas. As a result, employees are expected not to act in deceptive manners and to keep accurate and current records of all the business obligations that are currently the responsibility of the employee. Employees should allow any other interested party to understand how the pattern of behavior was justified based on his or her actions. Traditional violations of this principle include fraudulent and deceptive actions of the employee.

Transparency also incorporates how the employee deals with information. Transparent actions include accurate and up-to-date records of the information related to the actions and the decision-making process. This also guarantees that the financial information presented to investors is truthful and accurate and that the information is developed within the guidelines of auditing and financial reporting standards. Furthermore, transparency guides the employees in ensuring that the relationship between the company and its suppliers and partners is done in an honest manner. Transparency also ensures that the firm's marketing focus does not mislead or misinform its current and potential customers. Transparency ensures that firms present accurate and truthful customer warnings for any health and safety issues that could affect the customer's use of a product.

Transparency makes it clear to the employees that the acquisition of proprietary information from competitors is not acceptable. The benefits of following the transparency principle include the ability to make better-informed decisions, the ability to ensure that the truth is always presented to others in the organization, and an allowance for improved cooperation within the firm through the development of trust among the employees.[36]

Dignity Principle

The dignity principle is based on the belief that each employee needs to respect the dignity of all individuals. Protecting the dignity of people in society includes ensuring the human rights of health, safety, and privacy. Furthermore, the dignity principle encourages the enhancement of human development within the company, in the marketplace, and in society at large. Therefore, any type of humiliation, coercion, or other type of human offenses directly violates the dignity principle. The dignity principle involves making affirmative efforts for those individuals who need help in their personal pursuits, and it helps protect those individuals who are vulnerable to unethical actions. Those vulnerable could be employees who potentially face harassment or other factors that could create a hostile work environment. Under the dignity principle, the company is responsible for ensuring that employees do not face unnecessary physical risks as they perform their work responsibilities.

Furthermore, the company is responsible for respecting employees' and customers' privacy and for protecting confidential information. The company should not accept any labor opportunities in which child labor would be directly or indirectly involved in the manufacturing of the firm's products. The firm should allow the employees to form a union and permit collective bargaining to take place pertaining to labor issues. Moreover, the dignity principle highlights the sensitivity employees should have as they interact with people from other cultures and other countries.[37]

Fairness Principle

The fairness principle is based on the belief that stakeholders who have a vested interest in the firm should be treated fairly. There are four types of fairness: reciprocal fairness, distributive fairness, fair competition, and procedural fairness. *Reciprocal fairness* addresses the issues of treating another party fairly and having the other party treat the firm fairly. *Distributive fairness* is based on the assumption that the allocation of finite resources within the firm will be distributed fairly based on maximizing the benefits of those allocations. *Fair competition* focuses on the fair treatment given by the firm as it interacts with its existing and potential competitors. This includes ensuring that collusion does not occur between the firm and its competitors pertaining to factors such as price, number of products produced in geographical locations, and market share. It also includes ensuring that bribes or any other illegal financial incentives are not given to interested parties in exchange for a favorable relationship with those parties. *Procedural fairness* deals with ensuring that parties that interact with the firm are treated fairly from a due process perspective. This also includes ensuring that employees would not experience retaliation if they notify government officials of any illegal violations.[38]

Citizenship Principle

The citizenship principle is based on the belief that every employee should act as a responsible citizen in the community. Employees should respect the laws of the community. This includes criminal laws, as well as competition, environmental, and corporate social responsibility laws. Employees are expected to protect and preserve public goods available to the community. This includes sustainability and other environmental issues, public space issues, and legitimate government. Employees should also be cooperative with community officials. This includes notifying the proper authorities if there are health and safety issues that relate to the goods and services provided by the firm. Employees should be cognizant of unacceptable involvement in political or government issues, including illegal financial involvement or other illegal use of resources to support a political official. The employees should contribute to the general well-being of the community by volunteering to help the community through charitable organizations or other community-based programs.[39]

Responsiveness Principle

The responsiveness principle is based on the belief that employees have a responsibility to respond to requests for information about the operations from the various stakeholders. As a result, employees must reply to stakeholders' requests for information and must be responsive to ideas presented by the stakeholders to help improve the operations of the firm. From a customer perspective, a responsive firm is one in which the goods and services offered at least meet, if not exceed, the expectations of the customers. A timely response to any complaints from the customers concerning the firm's products should also occur. Responsiveness is expected with the firm's interaction with its employees. A responsive firm is expected to react in a timely manner to resolve any outstanding issues that have been raised by the employees, interest groups, suppliers, the local community, and any other stakeholder that has a vested interest in the company.[40]

In summary, this chapter exposed the complex nature of business ethics. From frameworks to guiding principles, business ethics is a multifaceted concept that has many dimensions.

Questions for Thought

1. Which of the teleological frameworks most closely match your ethical beliefs? Under what circumstances would you shift toward another of the frameworks? For example, if you were trapped in downtown New Orleans during Hurricane Katrina, what would you do to stay alive and provide for your family?
2. Do you think "Greed Is Good"? Can a free market economic system survive without human greed?
3. Which of the seven deadly sins do you believe is the most serious to commit? Which of the seven deadly sins do you believe is the least serious to commit? Do you think certain sins have gained or been reduced in importance over time?
4. Using the principles set forth in the Global Business Standards Codex, find an example of a company that does or did not follow one of the principles. Discuss the implications of the company's actions.

Real-Life Ethical Dilemma Exercise

Sir Nicholas Winton: A True Humanitarian

In 1938, a 29-year-old English stockholder was invited by a friend to visit Prague when their planned skiing trip to Switzerland was cancelled. Instead, Sir Winton visited refugee camps in Sudetenland, which was a German-speaking part of Czechoslovakia. Sir Winton realized that it would be very difficult for the refugees to be able to leave Czechoslovakia, and therefore, he focused on trying to transfer some the children, mostly Jewish, from Czechoslovakia to England. He took the letterhead from an existing organization called the British Committee for Refugees from Czechoslovakia and added “Children’s Section” to the heading. He became the “chairman” of this new division and sought English families to adopt the orphans from the refugee camps. Sir Winton would forge travel documents for the orphans when the proper documents did not come quickly enough from the British government. He would reserve a train and the orphans would travel from Prague through Holland and then eventually reach London. A total of eight trains carrying 669 orphans reached London. A ninth train was scheduled to depart carrying 250 children on September 1, 1939, but it was stopped at the train depot when war was declared.[41,42,43]

Questions for the Real-Life Ethical Dilemma Exercise

1. Discuss how this issue would be addressed using each of the teleological frameworks.
2. Explain why Sir Winton is considered a humanitarian.
3. Winton saved many children on his orphan trains. Discuss the ethical implications of what Winton accomplished.

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2

The Evolving Complexities of Business Ethics

Ethical decision making isn't an option today. It's an obligation—in business, in education, in government, in our daily lives.

—Willard C. Butcher,
retired chairman of the Chase Manhattan Corporation

Chapter Objectives

After reading and studying Chapter 2, students should be able to

1. Explain the global complexity of business ethics.
2. Describe the historical development of business ethics.
3. Define *integrity*. Explain the role of integrity in the corporation.
4. Describe some of the tests used for measuring integrity.
5. Describe the three ethical tests used in corporate decision making.
6. Explain the methods people use to rationalize their unethical behaviors.
7. Discuss the elements of a cheating culture.
8. Explain generational differences in cheating.

Bono: I Still Haven't Found the Tax Rate That I'm Looking For

Located in a building where slave traders and spice merchants made business transactions 400 years ago, a company called Promogroup has its corporate headquarters. Promogroup helps individuals and companies with high levels of income "shelter" the tax exposure of their income. Clients include the three members of the Rolling Stones—Mick Jagger, Keith Richards, and Charlie Watts—the record label EMI; CORE Media Group, the company that owns the rights to *American Idol*; and Elvis Presley's estate. Promogroup was able to reduce the total tax paid by the three Rolling Stones members to $7.2 million on income of $450 million, resulting in an aggregated tax rate of 1.5%.

Another client of Promogroup is Bono and the rest of U2. Bono is well known for his stance on many global causes, including AIDS awareness, reducing global poverty, and helping developing countries reduce their level of foreign debt. He also wrote the foreword to the book *The End of Poverty*, written by Jeffrey Sachs in 2005.

The tax shelter established by Promogroup is based on the simple flow of royalties that go into and leave the Netherlands. A Dutch holding company was established for Promogroup's clients, and the revenue from the royalties of any other intellectual property sent to the holding company is exempt from taxes. The clients are then allowed to withdraw the royalties with the tax being "paid." A tax consultant in Rotterdam, the Netherlands, Ton Smit, stated that for the vast majority of clients who set up these holding companies, the sole motivation is to achieve either tax minimization or tax avoidance. The Dutch tax shelters are available only to artists who are not U.S. citizens. The U.S. Department of the Treasury charges the standard corporate income tax rate on any revenue that is transferred into the United States from a Dutch company.

U2 has accumulated an estimated net worth of more than $900 million, and band members felt that they needed to move their royalty revenues because Ireland was going to greatly reduce the tax incentives given to musicians and other artists living in Ireland. In June 2006, U2 moved its song publishing catalog to the Netherlands via Promogroup. A research group in the Netherlands, SOMO, the Centre for Research on Multinational Corporations, concluded that the tax haven given to individuals and corporations through the use of holding companies was having a negative impact on the capacity of developing countries to be able to provide essential services to their citizens and on the ability of developed countries to reduce or forgive their outstanding debt agreements with developing countries. One of the authors of the SOMO report, Richard Murphy, who runs a tax research institute in England, stated that Bono's tax agreements through U2 Ltd. in the Netherlands is completely inconsistent with Bono's stance on helping developing countries move from poverty conditions. Murphy continued, stating that Bono cannot demand that resources be given to antipoverty campaigns because he is not giving the resources to the governments so they can implement antipoverty campaigns.

In commenting on Bono's shifting his tax burden to the Netherlands, a spokesperson of the Irish Labour Party, Joan Burton, stated that Bono should be applauded for being an advocate for improvements in developing countries. However, those improvements come from taxes, and it would be difficult to ask other people to pay taxes to improve economic development if he is not paying taxes himself.

U2's business manager, Paul McGuinness, stated that U2 is a global business and pays global taxes. In addition, approximately 95% of U2's revenue, which includes concert ticket sales and record sales, is earned outside Ireland. The band pays taxes all over the world on its worldwide income and abides with all Irish tax laws. However, McGuinness continued by stating that unique tax solutions are common in Ireland and that U2 runs its business in the most tax-efficient way possible.[1]

In 2011 at the Glastonbury Music Festival, when U2 took the stage, activists from the organization Art Uncut inflated a 20-foot balloon that stated "U Pay Your Tax 2."[2]

The Global Complexity of Business Ethics

> *We no longer live in a world of nations and ideologies, Mr. Beale. The world is a collage of corporations, inexorably determined by the immutable bylaws of business. The world is a business, Mr. Beale. It has been since man crawled out of the slime. And our children will live, Mr. Beale, to see that perfect world in which there's no war or famine, oppression or brutality—one vast and ecumenical holding company, for whom all men will work to serve a common profit, in which all men will hold a share of stock, all necessities provided, all anxieties tranquilized, all boredom amused.*[3]
>
> —Arthur Jensen, *Network*, 1976

In the movie *Network*, a television show host, Howard Beale, convinced his viewers to complain and cancel a deal made by the corporation that owned the television network Beale works for. The CEO of the corporation, Arthur Jensen, summoned Beale up to the boardroom to convince him that what he had done was wrong. Although this speech is more than 35 years old, it could be argued that it is more relevant today than in 1976 when *Network* was made. The power of corporations has grown phenomenally during the past three decades as corporations have become more global and new markets have emerged. From China to India, from Eastern Europe to South America—countries that were difficult if not impossible to penetrate by multinational corporations are now just one more market in the global competitive marketplace. As a result, as companies increase in size and geographic representation, they also increase in power. From global marketing to global political lobbying, corporations use these resources to enhance their ability to become financially stronger. As a result, it could be argued that corporations have become more powerful in many areas as compared with governments.

A simple example showing how powerful corporations have become can be demonstrated in the trade policies of the U.S. government and corporations. Even though there are sanctions and trade embargoes established by the U.S. government with certain countries, corporations are still allowed to sell products to customers in blacklisted nations. The Office of Foreign Assets Control in the Department of the Treasury has allowed companies such as Pepsi and Kraft Foods to do business with countries that are barred from doing business with the U.S. corporations. The exceptions allowed by the Department of the Treasury are based on specific agricultural and medical humanitarian needs. These needs have been interpreted broadly enough to include cigarettes, gum, hot sauce, weight loss products, body supplements, and sports rehabilitation equipment. Some of the companies that have been granted exemption licenses include Bank of America, Bayer, Boeing, Bristol-Myers Squibb, Chiquita Brands, Citigroup, Coca-Cola, ConAgra Foods, Del Monte, Eastman Kodak, Eli Lilly, ExxonMobil, General Mills, Johnson & Johnson, JPMorgan Chase, Lockheed Martin, Mars, MCI, Merck, Motorola, Occidental Petroleum, Oracle, PepsiCo, Pfizer, Philips Electronics, 3M, and Wells Fargo Bank. A listing of blacklisted nations that were involved in the trade transactions include Burma, Cuba, Iran, Iraq, Kosovo, Liberia, Libya, North Korea, and Sudan. Some companies have considered the costs and benefits of the decision to trade with blacklisted nations and have decided that trade is not the optimal solution. General Electric, which was one of the leaders applying for exemption licenses, decided that it would stop all but true humanitarian businesses and would donate its profits from Iran to charity. Another company, a small player called Anndorll, had second thoughts after its license to sell in Iran had been approved. Owner Joshua Kamens decided not to complete the authorized deal, stating, "I'm an American . . . Even though it's legal to sell that type of product, I didn't want to have any trade with a country like Iran."[4] As Arthur Jensen stated, the role of corporations and the influence they have over individuals are not new but are as old as commerce itself.

History of Business Ethics

Derived from the Greek word for character, *ethos*, ethics have been debated for centuries. Ethics need to be given even higher consideration in today's corporate environment. Ethical climates are created by individual judgments. But knowing the corporate stand on certain aspects can contribute to management's creation of a strong ethical culture. The discovery of ethics began many centuries ago with discussions initiated by Aristotle, Socrates, and Plato. In fact, Aristotle stated that a person is not complete until that person is a contributing member of society. In addition, Aristotle explained that a true friend would tell another friend when he or she is acting selfishly and foolhardily.[5]

As long as there has been commerce, there have been ethical issues about how business is conducted. In the 17th century, the United Kingdom offered companies such as the Hudson Bay Company, the East India Company, and the Massachusetts Bay Company monopolistic charters so "English" settlements could be established in different countries.

The climate of today's business ethics has seen a real change from those initial discussions that were made centuries ago.[6] During each decade, we have been faced with turbulent ethical times. In the 1960s, the climate of business ethics was more of a period of social unrest. Employees and employers began to have an adversarial relationship, casting aside the earlier values of loyalty with management created in the 1950s. Issues such as the environment and drug use among employees began to be dilemmas for employers. This era showed the birth of the corporate social responsibility movement, with corporations beginning to establish codes of conduct to help deal with these newfound problems.

The economy of the 1970s suffered a recession, and the unemployment rate rose dramatically. Several scandals involving defense contractors and corporations led to a mood of value-centered ethics. Human rights issues began to come to light, and environmental issues continued to be a major focal point for corporations. This was when companies began to cover up their wrongdoings rather than deal with the issues head-on.

In the 1980s, financial fraud surfaced through the savings and loan scandal. Loyalty to employers decreased dramatically. The Ethics Resource Center helped form the first business ethics office at General Dynamics in 1985.

The 1990s saw an outgrowth of global opportunities for companies, but they were not without concerns. Unsafe work practices, child labor issues, and environmental issues gained prominence. The significant outgrowth of companies gave rise to financial mismanagement.

At the new millennium, unethical companies began to surface, wrought with financial mismanagement problems. Intellectual property theft, cybercrime, and personal privacy issues surfaced. The most significant event in the United States was the passage of the Sarbanes-Oxley Act in 2002, which attempted to control the financial mismanagement issues eroding the integrity and confidence of corporations and their stakeholders. Companies continue to use unethical practices to become more competitive and to increase their level of profitability.

Who Are the Dead Peasants?

Corporate-owned life insurance (COLI), commonly called dead-peasant policies, allow corporations to establish life insurance policies on any employee within the firm. The corporation pays the premium and receives the full amount of the payout when the employee dies. Although it was designed to be used to ensure top-level executives "protect" the firm, dead-peasant policies are routinely issued for rank-and-file employees. The net result is that if an employee dies prematurely while working as an employee at the company, the company is under no obligation to give the grieving family any monies that are obtained from the policy. The company receives the death benefits and uses the proceeds to pay for various company expenses. In 2008, the Bank of America had $17.3 billion in such policies, and other financial institutions were not far behind: Wachovia Corp, $12 billion; JPMorgan Chase, $11.1 billion; and Wells Fargo, $5.7 billion. A total of $122.3 billion of insurance policies have been "invested" by banks and will yield an estimated $400 billion in death benefits. In regulatory filings, these insurance policies are referred to as "mortality dividends" or "yields." Banks have used the payouts to help fund bonuses for their employees. In 2006, Congress passed regulations that allowed companies to set up insurance policies only for the top third earners of their employees and the employee must provide consent. The regulations were not retroactive, so there are still millions of insurance policies that are on the books for numerous corporations.[7]

The dead-peasant policy was spotlighted in Michael Moore's *Capitalism: A Love Story* when a 26-year-old female employee who was a cake decorator for Wal-Mart passed away. Wal-Mart received a $81,000 payout from the dead-peasant insurance policy. The family was faced with $100,000 in medical bills and $6,000 for the funeral. Wal-Mart did not offer to pay any part of the outstanding debt. In fact, the Moore documentary explained that young women are the "best" people for corporations to insure: They will give the largest payouts because they have the longest life expectancy.[8]

This is not the only time Wal-Mart has been part of a media report related to COLI policies. In 2009, Wal-Mart settled a lawsuit that charged that Wal-Mart COLI policies violated Texas law. Texas law stated that a corporation can only have an insurance policy issued to an employee who has an "insurable interest" for the corporation. In other words, Wal-Mart was allowed to insure only top-level executives, not the rank-and-file employees in Texas. Wal-Mart was estimated to have 350,000 employees who were covered with COLI policies. The standard insurance rate for the rank-and-file Wal-Mart employees was between $60,000 and $80,000. Wal-Mart claimed it stopped its COLI program in 2000.[9]

The Role of Integrity

Integrity is derived from the Latin word *integri*, which means *wholeness*. The term *integrity* is defined by *Merriam-Webster Dictionary* as "a firm adherence to a code of especially moral or artistic values."[10] The underlying assumption of the role of employees within the organization is a deeply rooted level of organizational commitment. That commitment generates an attitude in which the employees can be passionate about their effort and the overall commitment of the firm. After they leave the firm, the employees want to believe that there is a legacy of their contribution to the success of the firm. This commitment, passion, and dedication drives employees to a high level of integrity within their work settings. Integrity is based on employees' continuous efforts to balance their personal values with the requirements for performing their jobs effectively throughout their careers. Integrity could include understanding and fulfilling the duties of their jobs, as well as admitting when errors have been made and making corrections when needed. One of the greatest dangers to an employee's integrity is to have his or her integrity compromised over time. Having an employee's individual integrity erode allows potential negative consequences that could include unethical and illegal behavior as well as dysfunction within the professional and personal relationships the individual has with others.[11]

An individual could evaluate the integrity of his or her actions based on some simple rules of thumb or heuristics in the form of different tests. The *publicity test* asks whether the individual would be comfortable if his or her actions were publicized in a newspaper or on television. The *trusted friend* test asks whether the individual would be comfortable in telling his or her best friend or a close family member about his or her actions. The *reciprocity test*, also known as the *Golden Rule*, asks whether the individual treats others as he or she would like to be treated. The *universality test* asks whether the individual would consider it acceptable behavior if anyone in the world did the same action. The *obituary test* asks the individual to look back on one's previous actions during one's career and ask if he or she is comfortable with the evaluation.[12]

Specific Behaviors of High Integrity

As shown previously, testing is one method in which the interpretation of behavior of high integrity can be determined. An alternative method is a listing of specific behaviors that would support a high level of integrity with the opposite behavior considered a low level of integrity. Donald Zauderer listed 13 specific behaviors that can help identify the level of integrity in individual actions: possessing humility, maintaining the ability to be concerned about the greater good, being truthful, fulfilling commitments, striving for fairness, taking responsibility, having respect for the individual, celebrating the good fortune of others, developing others, reproaching unjust acts, being forgiving, and extending oneself for others.[13]

Possess Humility

An individual should be humble in his or her actions when interacting with others. There is no value added in being arrogant or in exaggerating one's individual contribution to the success of the firm.

Maintain Concern for the Greater Good

An individual should always make decisions that benefit the firm overall. The individual should never make decisions where the individual's self-interests supersede the interests of the firm.

Be Truthful

An individual should always be truthful in his or her statements and in his or her actions. An individual should never make untrue statements or take credit for the efforts of others.

Fulfill Commitments

An individual should always make a good-faith effort to fulfill all the commitments the individual promised to complete. An individual should never breach an agreement or deliver a required project late or not at all.

Strive for Fairness

An individual should make decisions that are fair to everyone who can be affected by the decision. An individual should never be biased in decisions, including making judgments without all the relevant documents or assigning employees based on subjective criteria that discriminates against other employees.

Take Responsibility

An individual should always take full responsibility for one's own actions. An individual should not shift the blame to others or falsely accuse others of actions that are not accurate.

Have Respect for the Individual

An individual should respect the interests and actions of others. An individual should not reduce the level of respect for other employees by not acknowledging recognition when it is warranted. An individual should also not refuse the input of other employees and should not display rude behavior toward other employees.

Celebrate the Good Fortune of Others

An individual should share the joy in another person's accomplishments. An individual should not be envious of the success of a colleague.