

# BUSINESS ETHICS: AN INTRODUCTION

- **Ethics:** Applying moral principles and values to social behavior.
- **Business Ethics:** Moral principles and values applied to situations that arise in a business setting.
- **Triple-bottom line:** A corporation's profits, its impact on people, and its impact on the planet; becoming increasingly important to investors and consumers.
- Businesses trying to meet or exceed the *moral minimum* (*i.e.*, the minimally acceptable standard for ethical business behavior) may look for guidance from:
  - corporate and professional **ethics codes** and **compliance programs**;
  - **public opinion** and sentiment; and, of course,
  - **personal morality**.
- **Legal Behavior:** While certain actions are clearly legal or illegal, many decisions faced by businesses fall within one or more “gray areas” of the law, where probability, rather than certainty, will guide the decisionmakers.

- **Ethical Behavior:** Even where a contemplated action is legal (or, in some circumstances, illegal), business decisionmakers should also consider whether the action is “ethical.”
- **Ethics vs. Law:** Most companies attempt to enforce ethics through an internal system of rules that promotes good ethical behavior.

## SOCIAL MEDIA

- **Hiring Procedures:** Companies are increasingly using social media to evaluate prospective employees, a practice that some argue is unethical.
- **Social Media:** Until recently, companies were free to fire or penalize employees for their behavior on social media sites. In 2012, however, the NLRB ruled that one such policy in place at Costco violated federal labor law.

# ETHICAL REASONING

- **Duty-Based Ethics:** Ethics based upon an underlying concept of duty regardless of the consequences of action taken or forewarned in keeping with duty. Duty-based ethics generally arise from **religious belief** or **philosophical reasoning**.
- **Categorical Imperative:** In deciding whether an action is ethical, one should consider what the effect would be if everyone similarly situated acted in the same way.
- **Principle of Rights:** In deciding whether an action is ethical, one should consider what effect her actions would have on the fundamental rights of others.
- **Outcome-Based Ethics:** Ethics based upon the consequences of action taken or forewarned, without regard to any underlying concept of duty or morality.
- **Utilitarianism** dictates that a decision to act or not act should be directed to producing *the greatest good for the greatest number of people*.
- Applying any outcome-based ethic requires a **cost-benefit analysis** of the negative and positive effects of the proposed act or omission on the individuals who are likely to be affected by it.

# CORPORATE SOCIAL RESPONSIBILITY

- **Corporate Social Responsibility:** The idea that corporations, and those who run them, should act ethically and in society's best interests, not just their shareholders' best interest.
- **Stakeholder Theory:** A particular challenge facing businesses is ethically balancing the competing demands of multiple groups of *stakeholders* – *e.g.*, shareholders, employees, retirees, suppliers, creditors, customers, the communities in which the business operates – whose lives business decisions affect.
- **Corporate Citizenship:** Corporations should behave as “good citizens” by promoting worthwhile social goals and by working to solve important social problems.
- Socially-responsible corporate behavior is most likely to succeed when it is relevant and important to a company's stakeholders and its business operations.
- Prospective employees – particularly younger ones – often seek jobs, and are more likely to stay in jobs, that allow them to participate in community improvement and other meaningful social activities.

# MAKING ETHICAL DECISIONS

- Leonard H. Bucklin of Corporate-Ethics.US™ has developed a five-step process for investigating and resolving business ethics problems. In principle, he prescribes the following:
  - (1) **Inquire:** Gather the facts you need to understand the ethical problem facing you or your client and draw up a list of ethical principles relevant to the problem;
    - Because internal information may be inadequate to appreciate the scope and magnitude of the ethical problems, the inquiry should seek information from external sources, such as customers and media.
  - (2) **Discuss** the options for addressing the problem and the ethical principles each option advances (and might impair);
  - (3) **Decide** which options to pursue and which to forego, striving for consensus (or as close to it as is practical);
  - (4) **Justify** the actions taken, and those foregone, in order to withstand moral scrutiny and garner stakeholder support (or, at least, not provoke stakeholder opposition); and
  - (5) **Evaluate** whether the proposed solutions, and the process by which they were chosen, satisfy business, community, and individual values and can withstand moral scrutiny.

## SETTING THE ETHICAL TONE

- **Management Attitudes:** Managers who do not commit to creating and maintaining an ethical workplace rarely have one.
- Employees tend to follow what they perceive to be management's lead, so managers must model ethical behavior for their employees.
- Managers should set realistic goals for their employees to reduce the incentive to "cheat" in order to achieve management's goals.
- Managers who "look the other way" because an unethical employee is successful risk other employees believing that acting unethically is the key to success.
- **Sarbanes-Oxley Requirements:** The Sarbanes-Oxley Act of 2002 requires publicly-traded corporations to set up programs to enable employees to confidentially report certain types of suspected illegal or unethical behavior. Some companies encourage employees to report illegal or unethical behavior that is outside the scope of Sarbanes-Oxley.

# BUSINESS ETHICS IN THE GLOBAL MARKET

- In response to numerous scandals involving U.S. companies paying bribes to foreign government officials in order to gain strategic concessions, Congress passed the **Foreign Corrupt Practices Act (FCPA)** in 1977, which:

- (1) **prohibits** any U.S. company, director, officer, shareholder, employee, or agent from **bribing** any foreign government official if the purpose of the payment is to get the official to act in her official capacity **to provide business opportunities** to the party offering the bribe;

- The FCPA does not prohibit bribery of minor officials whose acts are purely ministerial, as long as such payments are legal in the foreign country.

- (2) requires U.S. companies to keep **detailed accounting records** that “accurately and fairly” reflect all foreign activities;
- (3) prohibits anyone from making **false statements or false entries** in said records; and
- (4) provides **sanctions** against both companies and individual agents who violate the FCPA.