

# BUSINESS ETHICS: AN INTRODUCTION

- **Ethics:** Moral principles and values applied to social behavior.
- **Business Ethics:** Moral principles and values applied to situations that arise in a business setting.
- 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 are affected by business decisions.

# CORPORATE SOCIAL RESPONSIBILITY

- **Corporate Social Responsibility:** The concept that corporations can and should act ethically and be accountable to society for their actions.
  
- **Profit Maximization:** Corporate directors and officers have a paramount duty to act in the shareholders' best interest. Because of the special relationship between the directors and officers of a corporation and its shareholders, the law holds directors and officers to a high standard of care in performing these *fiduciary duties*.
  - One compromise may be to pursue **optimal** (i.e., “best”) profits, rather than **maximum** (i.e., “most”) profits.
  
- **Stakeholder Theory:** Corporations must also consider the effects of their actions and policies on their employees, retirees, creditors, suppliers, customers, and the communities in which the corporation does business.
  
- **Corporate Citizenship:** As receptacles of vast wealth and power, corporations should act to further societal interests at the expense of the corporation's own profit interest.

## “LEGAL” VS. “ETHICAL”

- **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 clearly legal (or, in some circumstances, illegal), business decisionmakers should also consider whether the action is “ethical.”
- While personal ethics are (or can be) subjective, certain guides are available to businesses trying to meet or exceed the *moral minimum* (i.e., the minimally acceptable standard for ethical business behavior):
  - corporate and professional **codes of ethics** and **compliance programs**;
  - **public opinion** and sentiment; and, of course,
  - **personal morality**.
- For businesses operating in more than one place, the moral minimum may vary from place to place – particularly when businesses operate abroad.

# DUTY VS. OUTCOME

- **Duty-Based Ethics:** Ethics based upon an underlying concept of duty regardless of the consequences of action taken or foresworn 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** (a.k.a. “**situational ethics**”): Ethics based upon the consequences of action taken or foresworn, 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 utilitarianism (or any outcome-based ethical rule) 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.

# FOREIGN CORRUPT PRACTICES ACT

- 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.