

ETHICAL REASONING

By Anne T. Lawrence and James Weber



- 1 How does a person know what behavior is right or wrong in the business world? What might lead an individual to act unethically? Does the root cause lie in a person's character or in direction given by top management? If so, should people be sent to jail or forced to resign for doing what their bosses told them to do? How can an employee refuse to follow orders, even when their boss is the CEO¹ or CFO² of the firm?

Ethics and Ethical Reasoning

- 2 People who work in business frequently encounter and must deal with on-the-job **ethical** issues. Being ethical is important to the individual, the organization, and the global marketplace. Managers and employees alike must learn how to recognize ethical **dilemmas** and know why they occur. In addition, they need to be **aware of** the role their own ethical character

¹CEO: Chief Executive Officer

²CFO: Chief Financial Officer

plays in their decision-making process, as well as the influence exerted by the ethical character of others. Finally, managers and employees must be able to analyze the ethical problems they encounter at work to determine an ethical **resolution** to these dilemmas.

The Meaning of Ethics

- 3 *Ethics* is the conception of right and wrong conduct that tells us whether our behavior is moral or immoral, good or bad. Ethics deals with **fundamental** human relationships—how we think and behave toward others and how we want them to think and behave toward us. Ethical *principles* are guides to moral behavior. For example, in most societies lying to, stealing from, deceiving, and harming others are considered unethical and immoral. Being honest, keeping promises, helping others, and respecting the rights of others are considered ethically and morally desirable behavior. Such basic rules of behavior are essential for the preservation and continuation of organized life everywhere.
- 4 These notions, or concepts, of right and wrong come from many sources. Religious beliefs are a major source of ethical guidance for many. The family institution—whether two parents, a single parent, or a large family with brothers and sisters, grandparents, aunts, uncles, cousins, and other kin—imparts a sense of right and wrong to children as they grow up. Schools and schoolteachers, neighbors and neighborhoods, friends, admired role models, ethnic groups, and the ever-present electronic media and the Internet influence what we believe to be right and wrong in life. The totality of these learning experiences creates in each person a concept of ethics, morality, and socially acceptable

behavior. This core of ethical beliefs then acts as a moral compass that helps to guide a person when ethical puzzles arise.

5 Ethical ideas are present in all societies, organizations, and individual persons, although they may vary greatly from one to another. Your ethics may not be the same as your neighbor's; one particular religion's notion of morality may not be identical to another's; and what is considered ethical in one society may be forbidden in another society. These differences raise the important and controversial issue of ethical *relativism*, which holds that ethical principles should be defined in the context of various periods in history, a society's traditions, the special **circumstances** of the moment, or personal opinion. In this view, the meaning given to ethics would be **relative to** time, place, circumstance, and the person involved. In that case, there would be no universal ethical standards on which people around the globe could agree. However, for companies conducting business in several societies at one time, whether or not (and which) ethics are **relevant** can be vitally important. For the moment, we can say that despite the diverse systems of ethics that exist within our own society and throughout the world, all people everywhere do depend on ethical systems to tell them whether their actions are right or wrong, moral or immoral, approved or disapproved. Ethics, in this sense, is a universal human trait, found everywhere.

6 Business ethics is the application of general ethical ideas to business behavior. Business ethics is not a special set of ethical ideas different from ethics in general and **applicable only to** business. If dishonesty is considered to be unethical and immoral, then anyone in business who is **dishonest with** stakeholders—employees, customers, stockholders, or competitors—is acting unethically and immorally. If protecting others from harm is considered to be ethical, then a company that recalls a dangerously

defective product is acting in an ethical way. To be considered ethical, business must draw its ideas about what is proper behavior from the same sources as everyone else. Business should not try to make up its own definitions of what is right and wrong. Employees and managers may believe at times that they are permitted or even encouraged to apply special or weaker ethical rules to business situations, but society does not **condone** or permit such an exception. *Accept*

Why Should Businesses Be Ethical?

7 What prevents a business firm from piling up as much profit as it can, in any way it can, regardless of ethical considerations? There are several reasons why business should be ethical. One reason is to meet the demands of business stakeholders.³ Organizational stakeholders demand business to exhibit high levels of ethical performance and social responsibility. Some businesses know that meeting stakeholders' expectations is good business. When a company upholds ethical standards, consumers may conduct more business with the firm and the stockholders may benefit as well, as illustrated in the story of the Co-operative Bank, a retail bank based in Manchester, United Kingdom, whose slogan is "Customer led, ethically guided." Some people argue that another reason for business to be ethical is that it enhances the firm's performance, or simply: *ethics pays*. Support for the relationship between being ethical and being profitable was found in a study conducted by the Institute for Business Ethics in the United Kingdom. Three of the four measures used in the study—economic value added, market value added, and price/earnings ratio—were stronger for companies that had a code of ethics than for those that did not.

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³ *stakeholder*: someone who has invested money in something, such as a business, and who will therefore be affected by its success or failure

Still another reason for **promoting** ethics in business is a personal one. Most people want to act in ways that are **consistent with** their own sense of right and wrong. Being pressured to **contradict** their personal values creates emotional stress for people. Knowing that one works in a

supportive ethical climate contributes to one's sense of psychological security. An Ethics Resource Center report noted that when employees "perceive that others are held **accountable for** their actions," the overall employee satisfaction at work is 32 percent higher.