

Installment A

Module 3 Business and Ethics

This Module provides conceptual background on the concept of business ethics, which focuses more on the business manager's behavior than the business firm's behavior. You can skim this module if you do not intend to do Case #4 Patagonia. Otherwise, it is not critical for case analysis later in the course.

Module 3. Outline

- I. Ethical Dilemmas for individuals vs. CSR dilemmas for enterprises

- II. Deciding What's Right: Philosophical Approaches to Ethics
 - A. Prescriptive Approaches to Ethical Decision Making
 - B. Deciding What's Right: A Psychological Approach to Ethics
 - C. Ethics as Organizational Culture

- III. Managing for Ethical Conduct
 - A. Human Behavior in Organizations
 - B. Managing for Ethical Conduct in a Global Business Environment
 - C. DeGeorge's moral guidelines for multinational Corporations
 - D. Eight Steps to Sound Ethical Decision-Making in Business

- IV. Ethical Codes

Module 3. Text

I. Ethical Dilemmas for individuals vs. CSR dilemmas for enterprises

Business managers confront ethical dilemmas on a continuing basis. These dilemmas can often be “paralyzing”—leaving managers uncertain how to act. Such dilemmas are not new, however. People have been concerned about ethics for thousands of years, and that includes business ethics. Below are some of the approaches to ethics that help us to understand the issue of ethics as it presents itself as an ethical dilemma for a business manager.

In this course, it is easier to speak of managers having “ethical dilemmas” but corporations having “corporate social responsibility or “social contract” dilemmas. The reason to draw this differentiation is that corporations are not “thinking beings”—they cannot be reflective of underlying personal values (even though enterprises do have “organizational cultures”), which is at the heart of ethical dilemmas, even though there is a social and political context to ethical dilemmas as outlined below.

Resolving Ethical Dilemmas

An ethics case poses an ethical dilemma for a manager (a) internal to the firm or (b) external to the firm – in which he/she is uncertain how to act. Ethical issues are raised, but ethical guidelines are unclear or contradictory. Often conflicting ethical signals come from one or more of the following:

- a. the manager's personal ethics (one can think of this as the baseline reference in ethical dilemmas for the individuals, just as profit is the baseline reference for the business enterprise)
- b. formal company policy (which may dictate how ethical dilemmas should be handled, either implicitly or explicitly)
- c. informal group norms within the company or industry
- d. societal values (which can be fragmented and contradictory)
- e. professional standards (which can be formalized in ethical codes)
- f. the ethics of one's superiors in the organization (which may have to be inferred)

Further, these ethical signals may conflict with short-term or long-term profit goals of the company. Nevertheless, the manager must act or decide: What should he/she do? **An analysis of an ethics case must identify the dilemma, the conflicting signals, possible alternative solutions, and a recommended action/decision, with accompanying rationale.**

II. Deciding What's Right: Philosophical Approaches to Ethics

A. Prescriptive Approaches to Ethical Decision Making

1. Focus is on Consequences

“Utilitarianism” – best decision is one that yields greatest net benefits, i.e., “utilitarianism” has a very practical orientation

2. Focus on Duties, Obligations, and Principles

Decisions based upon abstract universal principles: honesty, promise-keeping, fairness, rights, justice, respect. The focus is on doing what is “right” rather than doing what will maximize societal welfare

3. Focus on Integrity (Virtue Ethics)

Focus is on the integrity of the moral actor rather than the act.
“Character” is defined by one's community

B. Deciding What's Right: A Psychological Approach to Ethics

1. Individuals Have Predispositions to Be Ethical or Not

Focus is on “Cognitive Moral Development” – how people decide what is right.

- a. A large majority of adults are at a conventional level of cognitive moral development. Therefore, they are highly susceptible to influence by those around them – peers, supervisors, etc.
- b. A minority of adults gets their guidelines “internally,” and is therefore more likely to take responsibility for the consequences of their actions.

2. Cognitive Barriers to Good Ethical Judgment: Human Limitations

- a. Over-confidence about knowledge of facts leads to failure to search for additional facts or for support for facts you have
- b. Risk is underestimated because of
 - “illusion of optimism”—things will turn out well in the end
 - “illusion of control”—I can control events and others
 - “illusion of Superiority”—individuals think of themselves as more ethical, fair, and honest than the average person or their peers.

C. Ethics as Organizational Culture

1. Organizational ethics as a cultural phenomenon.

2. Formal cultural systems establish and reinforce organizational culture:

- a. Leadership at the top
- b. Organizational structure
- c. Policies and codes
- d. Formal reward systems
- e. Orientation and training programs
- f. Formal decision – making process

3. Informal cultural systems also play a significant role in defining the culture in an organization, including the norms for ethical behavior at all organizational levels

4. Once formed, how does one change the ethical culture in an organization?

- a. changing the formal cultural systems
- b. changing the informal culture

III. Managing for Ethical Conduct

A. Human Behavior in Organizations

1. Reward Systems – People do what’s rewarded and avoid doing what’s punished
 - a. But, can you really reward ethical behavior? In the long term, yes, but difficult in the short term
 - b. Punishment works best if administered fairly, and adults differentiate between fair and unfair punishment. A manager needs to be concerned about observers of punishment and implicit messages it contains
2. Everyone’s doing it: rationalizing unethical behavior
 - a. Pressure from group members to go along with established behaviors
3. People fulfill assigned roles at work, and conflicting roles can create competing demands and lead to unethical behavior
4. People do what they are told to do. Subordinates recognize their superiors as authority figures and their power as legitimate. They expect superiors to use this power to set high ethical standards, and to “Walk the Talk”
5. Responsibility is often diffused in organizations. Employees are encouraged to turn responsibility over to those at higher levels in the case of ethical uncertainty
6. Responsibility is also diffused in groups

B. Managing for Ethical Conduct in a Global Business Environment

1. Focus on the individual expatriate manager
 1. The enterprise cannot assume that behavior of individuals in host country will be consistent with cultural norms of the home country.
 2. People adapt their behavior to what they believe others expect of them, making behavior hard to predict even when you know the host country culture
 3. There is a natural tendency to assume cultural homogeneity—that the host country culture mirrors the home country culture. Both the home country enterprise and the expatriate manager must be alert for diversity within the culture of the host country.
 4. Payoffs and bribes, the classic ethical dilemma abroad
 - a. payoffs of in certain circumstances and of a certain magnitude are often accepted part of doing business in some cultures
 - b. Westerners prefer (and are often compelled by law) to do business according home country laws, not local laws
 - c. Conflicts arise if manager has no preparation for the situation
 1. What does the request mean in context of the culture?

2. What will happen if I don't pay?
3. Will a pay-off really expedite matters?
4. What are the other options?
5. How will my company react?

5. Development of guidelines, rules, codes, and reward systems
 - a. Managers need guidelines, rules and codes as benchmarks in ethical dilemma situations to avoid cultural relativism ("When in Rome, do as the Romans do.")
 - b. Clearly articulated corporate values and how they are applied to overseas contexts with examples of what to do in potential ethical dilemmas
 - c. Explain to foreign business partners why you're required to behave in a particular way
 - d. Adjust reward systems to acknowledge potential loss of business if managers follow guidelines and reward manager for following guidelines

6. Development of a "trans-cultural" corporate ethic based on 4 principles
 - a. The inviolability of national sovereignty
 - b. Social equity
 - c. Market integrity in business transactions
 - d. Human rights and fundamental freedoms

7. Formalizing Ethical Guidelines: Ethical Codes

Many companies want to eliminate as many ethical dilemmas for their employees as possible, so they set down in "ethical codes" general guidelines and specific precepts to guide employee conduct.

C. DeGeorge's moral guidelines for multinational corporations

- a. Should do no intentional direct harm
- b. Should produce more good than bad for the host country
- c. Should contribute to the host company's development
- d. Should respect employee human rights
- e. Should pay a fair share of taxes
- f. Should respect the local culture to extend that it does not violate moral norms
- g. Should work with local government to develop and enforce just institutions such as taxes and health and safety standards

D. Eight Steps to Sound Ethical Decision-Making in Business

1. Gather the Facts
2. Define the Ethical Issues
3. Identify the Affected Parties
4. Identify the competing values and norms of others and any ethical dilemmas that result
 - superior behavior
 - industry norms
 - company policy
 - peer ethics
 - professional ethics
 - societal values
5. Identify the Consequences
 - Long-term vs. short-term
 - Symbolic consequences
 - Consequences of secrecy
6. Identify the Obligations
7. **Consider Your Personal values, Character and Integrity**
8. Think Creatively about Potential Actions
9. “Check your gut”—does your decision feel right?

IV. Ethical Codes

Many companies use ethical codes to guide the behavior of employees. Similarly, many social media websites have *de facto* ethical codes to guide the behavior of users of their websites.

Ethical codes consist of a combination of general precepts and specific practices. The general precepts permit broad application of a particular prohibition in a code, while specific practices define specific activities or practices that are NOT acceptable.

Entry-level Employee Perspective

As an entry-level employee, you could be asked by your supervisor or a senior manager in your company to do something you consider unethical. In a survey I did for the *Harvard Business Review*, it was surprising how many respondents described

experiences they had as entry-level employees where they were asked to do something they considered unethical.

1. force hourly industrial workers to work so many overtime hours that there was a substantial increase in the risk of a serious accident
2. ignore company policy with regard to entertaining customers
3. report financial results that distort business unit performance
4. hire a relative of a superior
5. terminate a worker just before the worker achieved permanent employment status
6. permit products to be shipped that were substandard
7. use product components that had associated health risks
8. contact friends at other companies asking for proprietary information

Think about the following (not to be submitted): How would you respond to pressures to commit such acts? Are you clear about your own ethical values? Would you quit a job rather than act contrary to your ethical values if faced with any of the ethical dilemmas described above?