

# **Business Ethics and Its Issues**

Ethics and Morality are different:

- Ethics – a kind of investigation and includes both the activity of investigating and the results of that investigation.
- Morality is the subject matter that ethics investigates.

# Morality

Case: B.F. Goodrich – manufacturer of vehicle parts.

- Won a military contract to design, test and manufacture aircraft brakes
- Specification of the brake given
- Vandivier, was given the responsibility to write a report on the test runs
- The brakes did not comply with the specifications
- Superiors wanted him to falsify the test data and the reports.
- Vandiver agreed to co-operate due to personal and financial commitments

# Morality

## Vandivier's Beliefs

- The right to tell the truth
- Wrong to endanger lives of others
- Integrity is good
- Dishonesty is bad

**Moral  
Standards**

# Moral Standards

- The norms about the kinds of actions believed to be morally right and wrong
- Values placed on the kinds of objects believed to be good and bad (e.g. “always tell the truth”, “honesty is good”, “injustice is bad”)
- Moral standards come from:-
  - Family
  - Friends
  - School
  - T.V.
  - Music

# Nonmoral Standards

- Moral standards contrasted with standards we hold about things that are not moral
- Examples of Nonmoral standards include:
  - Standards of etiquette by which we judge manners as good or bad.
  - Standards we call the law by which we judge legal right and wrong.
  - Standards of aesthetics – good or bad art.
  - The athletic standards – how well a game is being played

# 5 Characteristics of Moral Standards

1. Involved with serious injuries or benefits. Eg. theft, rape, murder, child abuse, assault, fraud, slander.
2. Not established by law or legislative. Moral standards rest on the adequacy of the reasons that are taken to support and justify them.
3. Should be preferred to other interests. Eg if a person has a moral obligation to do something, then he or she is supposed to do it even if this conflicts with other nonmoral values or self-interest. Eg. Vandivier's case
  - moral values of honesty and respect for lives
  - nonmoral values of keeping his well paid job

# 5 Characteristics of Moral Standards

4. Based on impartial considerations:
  - Does not evaluate the interest of a particular individual or group
  - “universal” standpoint in which everyone’s interests are impartially counted as equal
5. Associated with special emotions and a special vocabulary
  - Eg. If you act contrary to a moral standard, you will normally feel guilty, ashamed, remorseful.
    - You characterize yourself as ‘immoral’ or ‘wrong’
    - Feel bad about yourself
    - Experience loss of self-esteem

# Ethics

- Examines one's moral standards or the moral standards of the society.
  - how these standards apply to our lives
  - whether the standards are reasonable or unreasonable
- Other fields, such as social science, also study ethics
  - Normative Study: attempts to reach normative conclusions
  - Descriptive Study: attempts to describe or explain the world without reaching conclusions.

# **Business Ethics**

- Study how moral standards apply to social systems and organizations that produce and distribute goods and services.

# Business Ethics

Topics covered:

- **Systemic Issues**
  - Raised questions about economic, political, legal or other social systems within which business operate
- **Corporate Issues**
  - Raised questions about a particular company
  - E.g. Goodrich's decision to 'qualify' the brakes
- **Individual Issues**
  - Questions about a particular individual within an organization, their behavior and decisions
  - E.g. Vandivier's decision in writing a report on the brake which he believed to be false, was morally justified

# Globalisation, Multinationals & Business Ethics

- Phenomenon rise of globalizations and number of MNCs
- Ability to operate in several countries produces new set of ethical dilemmas
  - Able to escape environmental regulations and labour laws by shifting to other countries
  - Able to shift raw material, goods and capital to escape taxes
  - Different moral codes and laws of countries e.g. child labor, bribery
  - transfer technologies or products into developing countries that are not ready to assimilate them

# Business Ethics & Cultural Differences

- Managers adopt the theory of ethical relativism in dealing with different cultures with different moral standards
- Ethical Relativism
  - A theory that there are no ethical standards that are absolutely true and that apply or should be applied to the companies and people of all societies.
  - Relativism holds that something is right for the people or companies in one particular society if it accords with their moral standards and wrong for them if it violates their moral standards.

# Business Ethics & Cultural Differences

- Numerous practices that are judged immoral by some societies that other societies have deemed morally acceptable.
  - Polygamy
  - Abortion
  - Infanticide
  - Homosexuality
  - Racial and sexual discrimination
- Ethical relativism points out that there are no moral standards that are binding on people everywhere.

# Business Ethics & Cultural Differences

## Criticisms of Ethical Relativism

- Illogical to assume answers to an ethical question are equally correct – or either answer is correct
- Relativism is incoherent
  - If ethical relativism were true then it would make little sense to criticize the practices of other societies so long as their practices conformed to their own standards
    - Eg. we cannot say that:-
      - Child slavery is wrong
      - Practice of apartheid in South Africa is wrong
      - German's treatment of Jews in the Nazi society of 1930s was immoral

# **Business Ethics & Cultural Differences**

## **Criticisms of Ethical Relativism**

- **Relativism privileges the current moral standards of a society**
  - Moral standards of a society are the only criteria by which actions in that society can be judged.
  - The theory gives the moral standards of each society a privileged place that is above all criticisms by members of that society or by anyone else.
  - A society's moral standards cannot be mistaken.

# **Moral Development & Moral Reasoning**

## **What is it?**

- Moral Development
  - As people mature they change their values in very deep and profound ways.
  - Children's adherence to moral standards is based on a self-absorbed avoidance of pain.
  - As we mature into adolescents, the moral standards are gradually internalized.
  - Adherence to moral standards are based on living up to the expectation of family, friends and society.

# **Moral Development**

## **What are the six basic stages of moral development?**

- Psychologists Lawrence Kohlberg concluded that there is a sequence of six identifiable stages in the development of persons ability to deal with moral issues.
- Kohlberg grouped these stages of moral development into three levels, each containing two stages.

# **Moral Development**

## **Level 1 : Preconventional Stages**

### Stage One : Punishment and Obedience Orientation

- Physical consequences of an act wholly determine the goodness or badness of an act.
- Child's reason for doing the right thing are to avoid punishment or defer to the superior physical power of authorities.
- Child not aware of others needs and desires.

# **Moral Development**

## **Level 1 : Preconventional Stages**

### Stage Two : Instrumental and Relative Orientation

- Right actions become those that can serve as instruments for satisfying the child's own need or the needs of those for whom the child cares.
- Child aware of others needs and desires.

# **Moral Development**

## **Level 2: Conventional Stages**

### Stage Three: Interpersonal Concordance Orientation

- Good behaviour at this early conventional stage is living to the expectations of those for whom one feels loyalty, affection and trust such as family and friends.
- Doing right is motivated by the need to be seen as a good performer.

# **Moral Development**

## **Level 2: Conventional Stages**

### Stage Four : Law and Order Orientation

- Right and wrong are determined by loyalty to one's own larger nation or surrounding society.
- Laws are to be upheld except where they conflict with other fixed social duties.

# **Moral Development**

## **Level 3 : Post Conventional, Autonomous, Or Principled Stages**

### Stage Five: Social Contract Orientation

- The person becomes aware that people hold a variety of conflicting personal views and opinions and emphasizes fair ways of reaching consensus by agreement, contract and due process.

# **Moral Development**

## **Level 3 : Post Conventional, Autonomous, Or Principled Stages**

### Stage Six: Universal Ethical Principles Orientation

- Right action comes to be defined in terms of moral principles chosen because of their logical comprehensiveness, universality and consistency
- The ethical principles are abstract general principles dealing with justice, society's welfare, equality of human rights, respect for the dignity of individual human beings.
- The person's reasons for doing what is right are based on a commitment to these moral principles.

# Moral Reasoning

- The process by which human behaviours, institutions or policies are judged to be in accordance with or in violation of moral standards.
- Moral reasoning involves two essential components:-
  - an understanding of what reasonable moral standards require, prohibit, value or condemn
  - Evidence or information that shows that a particular person, policy, institution or behaviour has the kind of features that these moral standard require, prohibit, value, or condemn.

# Analysing Moral Reasoning

- Three criteria are used to evaluate the adequacy of moral reasoning:
  - Moral reasoning must be logical.
    - Logic of the arguments used to establish a moral reasoning.
  - Factual evidence cited in support of a person's judgment must be accurate, relevant and complete.
    - Supported by statistics and scientific theory.
  - Moral standards involved in a person's moral reasoning must be consistent.

# **Arguments For & Against Business Ethics**

## **Objections to Bringing Ethics into Business**

- The pursuit of profit will ensure maximum social benefit
  - members of society will benefit most if managers do not impose their own values on a business
- A manager's most important obligation is to the company
  - this argument justify a manager's unethical or illegal conduct
- Business ethics is limited to obeying the law
  - Laws and morality do not always coincide
  - Laws do not involve serious matters
  - Nothing to do with morality

# Arguments For & Against Business Ethics

## Arguments Supporting Ethics in Business

- Ethics applies to all human activities
  - No reason to exempt business activity from ethical scrutiny
- Business cannot survive without ethics
  - business activities cannot exist unless the people involved in the business and its surrounding community adhere to some minimal standards of ethics
    - Eg. Lying, theft, cheating, distrust, conflict of self-interest
- Ethics is consistent with profit seeking
  - Companies where a history of good ethics has existed side by side : Intel, Timberland, HP, Cisco System, Levi Straus, P&G, Starbucks Coffee

# Arguments For & Against Business Ethics

## Arguments Supporting Ethics in Business

- Prisoner's dilemma argument
  - a situation in which two parties are each faced with a choice between two options : Either cooperate with the other party or do not cooperate
    - If everyone co-operates in following the rules of ethics - do not steal, do not lie, do not injure, keep your promise, do not cheat - all will be better off.
  - Prisoner's dilemma analysis of ethics has significant implication for ethics in business
  - Business interactions with employees, customers, suppliers and creditors are repetitive and on ongoing

# Arguments For & Against Business Ethics

## Arguments Supporting Ethics in Business

- Customers and employees care about ethics
  - most people value ethical behaviour and will punish those who they perceive to be behaving unethically and reward those who are perceived to be ethical
  - customers will turn against a company if they perceive a gross injustice in the way it conducts its business and will lower their willingness to buy its products.
  - Employees who feel their company's decision making processes are unjust will exhibit higher absenteeism, higher turnover, low productivity and demand higher wages

# Moral Responsibility and Blame

- Directed at determining whether a person or organisation is morally responsible for an injury or doing wrong.
- Incurred only when a person or organisation acted intentionally and so should be blamed, punished or forced to pay restitution.
- Ignorance and Inability are two excusing condition that eliminate moral responsibility.
  - Exception clauses apply e.g. deliberately keeps oneself ignorant to escape responsibility
  - Law of the land

# Moral Responsibility and Blame

- A person is morally responsible for an injury or a wrong if:
  - the person caused or helped cause it, or failed to prevent it when he could and should have; and
  - The person did so knowing what he or she was doing; and
  - the person did so of his own free will