Business Ethics

A Managerial, Stakeholder Approach

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> The fate of America lies in the success of its businesses. As one of the most fundamental social institutions, business impacts on the lives of most of us. It shapes the nature of our workplaces, determines how much we get paid, and defines career routes and career possibilities that help us plan the future. Thus, changes in business practices have major social as well as economic consequences, both positive and negative.
>
> *(Kanter 1989, 3)*

Recent business crises and scandals have had societal, even global, consequences and have awakened the interest of media, government, and public group stakeholders in business ethics. The following sample of recent business crises indicates that business has not been conducted "as usual" between business leaders and their stakeholders, outside and inside firms. For example,

- The Savings and Loan scandals cost taxpayers over an estimated $200 to $500 billion. The scandals involved irresponsible and unethical actions by government and business professionals in a variety of occupations who exceeded their mandates and responsibilities. Who should pay? Taxpayers?
- Union Carbide's gas leak in Bhopal, India, resulted in 2,000 deaths and over 200,000 injuries. The company still faces lawsuits. Would reaction have been the same if this had happened in the United States?
- The Manville Corporation filed for bankruptcy as a strategy to gain court protection to remain solvent and to avoid paying millions in liability suits to thousands of asbestos claimants, many of whom have died or are permanently disabled. Who is liable? Who should pay?
- Carl Icahn, T. Boone Pickens, Irwin Jacobs, and other corporate raiders have bought, sold, and restructured corporations for quick profit at the cost of local jobs and even of national long-term economic interests. Should corporations be bought, sold, and restructured as a competitive strategy? Who wins? Who loses in this game?

Inside corporations, moral issues and problems are also under greater scrutiny. For example,

- Corporations are increasingly implementing sexual harassment programs as more women enter the workplace and as complaints grow; the U.S. Supreme Court has ruled to protect employees from such harassment at work. How should managers deal with issues of sexual harassment at work?
- Acquired immunodeficiency syndrome (AIDS) in the United States and in the workplace is a serious problem. It is estimated that 1% of the U.S. health care budget was spent on AIDS in 1991. This estimate continues to increase as the decade advances. To what extent is company management responsible for screening and educating employees about AIDS? Should certain professionals and employees be required to be tested for AIDS?

These crises and other moral issues in the workplace involve business leaders, managers, and employees as invested **stakeholders***. Ethical principles and guidelines are being sought by business leaders to understand and manage these and other legal and moral dilemmas.

Although business ethics is not new, there is a renewed and growing interest in the subject. Major corporations such as Johnson and Johnson, Boeing, General Mills, GTE, Hewlett Packard, Xerox, and others have created ethics codes, instituted social responsibility audits, and included ethics in their training. A 1989–1990 follow-up survey of *Fortune 500* industrial firms and 500 service corporations by Bentley College's Center for Business Ethics showed that 46% of the 244 firms responding were expanding efforts to incorporate ethics into their companies—this compares to 19% of companies surveyed in 1984. In this same study, 49% of companies surveyed had also adopted some form of ethics training, compared to 35% in 1984; 91% reportedly had a written code of ethics, compared to 75% in 1984. Nearly 87% of those surveyed in 1990 believed the public is more aware of ethical issues in business, and 84% listed "being a socially responsible corporation" as a main goal in their ethics program, as compared to 27% who said that increased profit is a main goal (see Carroll 1989; Hoffman & Frederick 1990).

The Wall Street Journal, Business Week, Forbes, Fortune, Business Horizons, and other business journals frequently feature surveys and articles on ethical issues that range from global dumping to sexual harassment. Moreover, nationally accredited business schools require business ethics topics in their curriculum. Ethics is now being included in accounting, business policy, strategic and international management, law, and organizational theory and behavior courses.

*Key terms that appear in **boldface** will be found in the Glossary of this text.

1.1 BUSINESS ETHICS: A STAKEHOLDER APPROACH

> Schools of business administration have moved over the past 25 years from teaching the basic principles useful in operations management, to the quantitative models applicable in the functional departments, to the computer systems needed for the technical areas, to the competitive concepts required for strategic planning. In the next five years I forecast that these schools will move even further to the ethical principles required for stakeholder commitment. *(Hosmer 1991, 50–51)*

We present a stakeholder approach in this book for understanding and studying a corporation's moral responsibilities and obligations toward the individuals, groups, and institutions it serves. A stakeholder approach is also critical to meet what Sethi, Namiki, and Swanson (1984) have called "the Management Challenge." In their book *The False Promise of the Japanese Miracle*, they note that the five areas that determine the success or failure of an enterprise have been financial, manufacturing, human resource, management, marketing, and strategic management. They stated:

> To this must be added a sixth: the management of external relations—that is, business–government relations and dealing with other external constituencies. For in a hostile external environment, sociopolitical factors often have as much, if not more, impact on a firm's performance as the economic and market factors. *(Sethi et al. 1984, 279)*

The stakeholder approach is explained in detail in Chapter 2. For purposes of introduction, we note at the outset that the stakeholder approach views a corporation's ethical responsibilities in terms of its moral and economic obligations to the stakeholders (that is, constituencies) with whom it does business. Corporations are dependent to a large extent on their stakeholders to execute business goals successfully in society. For example, Exxon's stakeholders include its stockholders, customers, suppliers, employees worldwide, political and environmental groups that influence its transactions, unions, and international governments. Exxon (a corporate stakeholder) also depends and is obligated to each of these groups in different ways to achieve its aims. Exxon is primarily obligated economically to its stockholders; however, a stakeholder approach argues that if Exxon does not meet its moral, social, political, and legal obligations to its other stakeholders, it will not be able to function effectively or to serve its shareholders fairly and justly in a democratic social system. The *Exxon Valdez* oil spill and the resulting ecological crisis showed that Exxon deals with numerous stakeholders.

A stakeholder analysis can also focus on key actors other than corporations. A focal or key stakeholder can be an individual or a group as well as an institution. For example, Clarence Thomas, the recent Supreme Court nominee—now justice—was a focal stakeholder who had to defend not only his judicial credentials but also his personal integrity after Professor Anita Hill accused him of sexual harassment. Who were the stakeholders in this incident? What was at stake for each? Who was right, and who was wrong? Who was morally responsible or irresponsible? While this example does not directly involve a business corporation, it does focus on the business of the Supreme Court, the U.S. Senate, voters, and a number of important groups in society. The stakes may well include future business decisions, since Thomas, as a Supreme Court judge, will certainly be involved in making decisions affecting business. This situation calls for a stakeholder analysis, since so many parties, issues, and stakes were involved. The incident was complex, and the outcomes were not easily predicted. The moral responsibility of each party had to be weighed and judgments made.

The stakeholder approach addresses these types of ethical dilemmas for individuals, managers, and corporations. It is an approach that provides (1) a pragmatic means of understanding the social and moral obligations of business to each of its stakeholders and stockholders; (2) a method for mapping the complex relationships between a focal stakeholder and other constituencies; (3) a method of identifying strategies that each stakeholder can use to interact with moral responsibility toward others in crises, critical incidents, or ethical dilemmas; and (4) a way of "keeping score" and assessing moral responsibility and responsiveness of focal and other key stakeholders to each other. In complex and ambiguous ethical situations, right and wrong decisions are not always clear. A stakeholder approach enables decision makers to clarify relationships, strategies, and events in order to describe and evaluate moral options that address issues of justice, fairness, and equity in all stakeholder interests.

The moral role of managers from a stakeholder perspective is also not limited to purely economic, scientific, or profit motives. Society has evolved to a point of complexity such that business owners and managers must understand their moral obligations and their interdependencies with governments, consumers, the media, and a host of external constituencies in order to succeed in their stakeholder relationships. As one author noted:

> The ethical manager will be realistic about both the situation and the roles and functions of business, government and other institutions in dealing with

> it. He will also bear in mind the long-term interest of the persons and communities which he affects, having the courage to place those interests above his own short-term preoccupations. He will see his problems in the context of all of their relationships, employing his skills as a generalist to help produce appropriately systemic solutions. *(George Cabot Lodge, quoted in Hoffman 1990, 152)*

Before explaining this approach in greater detail in Chapter 2, we return to our discussion of defining and clarifying the following topics: business ethics, levels of ethical analysis, myths about business ethics, reasons why ethical reasoning is required in business, the nature of ethical reasoning in business, and whether business ethics can be taught or trained.

1.2 WHAT IS BUSINESS ETHICS?

Business ethics is the art and discipline of applying ethical principles to examine and solve complex moral dilemmas. Business ethics asks, "What is right and wrong? Good and bad?" in business transactions. Ethical "solutions" to business problems may have more than one "right" alternative and sometimes no "right" alternative may seem to be available. Logical and ethical reasoning is therefore required to understand and think through complex moral problems in business situations.

Although there is no one "best" definition of business ethics, there is a consensus that business ethics is an area that requires reasoning and judgment based on both principles and beliefs in making choices to balance economic self-interests against social and welfare claims.

Laura Nash (1990, 5) defined business ethics as "the study of how personal moral norms apply to the activities and goals of commercial enterprise. It is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system." Nash stated that business ethics deals with three basic areas of managerial decision making: (1) choices about what the law should be and whether to follow it; (2) choices about economic and social issues outside the law's domain; and (3) choices about the priority of one's self-interest over the company's.

In defining business ethics, it is also helpful to see how working professionals identify a wide range of issues that they experience in their professions and organizations. In an international survey of 300 companies worldwide, more than 80% of chief executive officers and senior managers stated the following as the top ethical issues facing businesses (Baumann 1987):

Employee conflicts of interest	91%
Inappropriate gifts	91%
Sexual harassment	91%
Unauthorized payments	85%
Affirmative action	84%

Also, in a national *Wall Street Journal* survey (1990, A1) of 1,400 working women, the following unethical practices were reported as occurring most frequently in business:

- Managers lying to employees
- Expense-account abuses at high levels
- Office nepotism and favoritism
- Taking credit for others' work

The same study reported that the most unethical behavior happens in the following areas:

Government	66%
Sales	51%
Law	40%
Media	38%
Finance	33%
Medicine	21%
Banking	18%
Manufacturing	14%

Other examples of questionable ethical activities that involve and also affect corporations include (Gordon 1990, 93):

- Receiving or offering kickbacks
- Stealing from the company
- Firing an employee for whistle-blowing
- Padding expense accounts to obtain reimbursements for questionable business expenses
- Divulging confidential information or trade secrets

- Terminating employment without giving sufficient notice
- Using company property and materials for personal use

These reported ethical issues in business suggest that any useful definition of business ethics must address social and economic problems in the workplace, including relationships between professionals at all organizational levels, and between corporate executives and external groups.

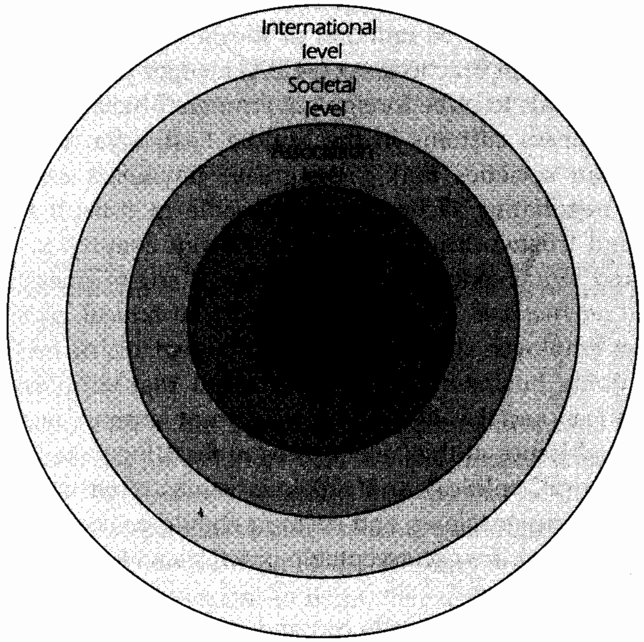
1.3 LEVELS OF BUSINESS ETHICS

Business ethics, then, is not simply a personal or an individual matter. Business ethics operates at multiple levels and perspectives. In this section, we review two illustrations of the different levels of analyzing ethical dilemmas in business. Because business leaders—and other invested business parties—must manage a wide range of stakeholders, inside and outside of organizations, understanding the different levels of stakeholders facilitates our understanding of complex relationships among the participants involved in ethical business dilemmas.

Carroll (1989, 110–112) discusses five levels at which business ethical issues can be addressed. Figure 1-1 illustrates *the individual, the organizational, the association, the societal,* and *the international* levels. Understanding moral dilemmas by identifying the level(s) at which moral issues originate and influence different stakeholder interests can add clarity for those who must decide what course of action to take. Also, as the film *Wall Street* illustrates, individual motivation and morality (or immorality) is linked to the organization, industry, and society. The themes of individual greed and unlimited ambition in the film were based on beliefs that brokerage firms (in the 1980s) could be vehicles for pursuing illegal activity: buying and selling stocks based on inside information to gain individual wealth. The view in the film that American society rewards individual wealth above all else is controversial but intriguing.

Ethical questions at the *individual level* address such issues as whether to cheat on an expense account, to call in sick when one is not, to accept a bribe, to follow one's conscience over an administrative order, to report a sexual harassment incident, or, as in the film *Wall Street,* to sacrifice legal standing for individual wealth. If an ethical issue involves or is limited to individual responsibilities, then a person must examine his or her own ethical motives and standards before choosing a course of action. (Chapter 3 deals with ethical individual stakeholder principles.)

Figure 1-1 Business Ethics Levels



Source: Archie B. Carroll. "Linking Business Ethics to Behavior in Organizations." S.A.M. *Advanced Management Journal* 7 (Summer 1978): 110. Reproduced with permission of the publisher.

At the *organizational level,* ethical issues arise when, for example, a person or group is pressured to overlook wrongdoings of his or her peers in the interest of company harmony; or when an employee is asked to perform an unethical or illegal act to earn a division or work unit profit. In the film *Wall Street,* the brokerage firm director praised Bud, the young employee, when he succeeded and fired him when he was caught for insider trading. If an ethical issue arises at the organizational level, the organizational member(s) should examine the firm's policies, procedures, and ethics code—if one exists—before making a decision.

At the *association level,* an accountant, lawyer, medical doctor, or management consultant may refer to his or her professional association's charter or ethics code for guidelines on conducting business before, for example, advising a client to deduct questionable items for tax purposes, or offering a plea bargain, or risking harmful side effects from ordering a prescription, or advising a client to acquire a company that conducts illegal business transactions.

thing for business? What happens when good ethics is not good business?" They continued:

> The ethical thing to do may not always be in the best interests of the firm. . . . We should promote business ethics, not because good ethics is good business, but because we are morally required to adopt the moral point of view in all our dealings with other people—and business is no exception. In business, as in all other human endeavors, we must be prepared to pay the costs of ethical behavior. The costs may sometimes seem high, but that is the risk we take in valuing and preserving our integrity.

As we have indicated, there are many logical problems in these myths about business ethics. In many instances, these myths hold simplistic and even unrealistic notions about ethics in business dealings. In the following sections, we continue the discussion about the nature of business ethics by exploring two questions: (1) "Why use ethical reasoning in business?" and (2) "What is the nature of ethical reasoning?"

1.5 WHY USE ETHICAL REASONING IN BUSINESS?

Ethical reasoning is required in business for at least three major reasons: (1) Many times, laws are insufficient and do not cover all aspects or "gray areas" of a problem (Stone 1975). For example, should the Manville Corporation have paid millions to asbestos claimants if that would have bankrupted the firm? Or, should that company (as it did) have legally declared bankruptcy and faced ethical reaction from the media and the public? Many legal actions may be unethical and cause pain and physical or economic harm to others. What rules or guidelines can people turn to in these situations when laws are not enough? (2) Free-market and regulated-market mechanisms do not effectively inform owners and managers about how to respond to complex crises that have far-reaching ethical consequences; for example, should companies, as American Cyanamid did in the late 1970s, legally prohibit pregnant women from working in toxic areas to protect their unborn fetuses, even though the firm's policy had the effect of pressuring several women into unemployment and choosing sterilization? Later in the 1980s, the firm faced unanticipated discrimination charges and lawsuits from several interest groups. In 1991, the Supreme Court ruled in a 6–3 vote that such "fetal protection" policies are a form of sex bias that is prohibited by civil rights law. American Cyanamid may have acted legally in the 1970s, but did it act ethically? What reasoning and guidelines help us answer questions when or before enacted laws provide authoritative guidelines?

(3) A third argument holds that ethical reasoning *is* necessary because complex moral problems require "an intuitive or learned understanding and concern for fairness, justice, due process to people, groups and communities" (Carroll 1989). Company policies and procedures are limited in scope and detail in covering human, environmental, and social costs of doing business. On what grounds or reasoning did the U.S. Congress vote to authorize President Bush to use his authority to declare war on Iraq? Were ethics and moral principles involved? The point here is that law, formal policy, and written procedures may not always be sufficient in certain situations to enable those who must act to do so with clear, unquestionable authority. Ethics plays a role in business because laws are often absent or insufficient to guide morally complex decisions.

The Nature of Ethical Reasoning in Business

In addition to the reasons discussed above, LaRue Hosmer* offered five major characteristics of ethical problems that also show the complexity of managerial ethics and point out the nature of ethical reasoning:

1. **Most ethical decisions have extended consequences.** Managerial decisions, actions, and results have consequences whose effects extend beyond their control and organization into society. For example, bribes change governmental processes. Pollution affects environmental health. The consequences and effects should be considered before decisions are made.
2. **Most ethical decisions have multiple alternatives.** Simple "yes" or "no" choices do not adequately characterize the many alternatives that exist and that should be considered in such decisions as "Should a manager pay a bribe? Should a factory pollute the air?"
3. **Most ethical decisions have mixed outcomes.** As in the second point, outcomes and alternatives are not unambiguous; they have social benefits and costs as well as financial revenues and expenses associated with the ethical choices.
4. **Most ethical decisions have uncertain consequences.** Unanticipated and unknown consequences can follow ethical choices.
5. **Most ethical decisions have personal implications.** Such decisions can affect the lives and careers of the decision makers. Individual costs and benefits, in addition to financial and social ones, are associated with most alternatives in ethical decisions.

*Adapted from LaRue Tone Hosmer. *The Ethics of Management.* 2nd ed. Homewood, IL: Richard D. Irwin, 1991, 13–15. Used with permission of the publisher.

Hosmer's approach to using ethical reasoning in moral dilemmas is to (1) consider different alternatives to the problem, (2) do a legal analysis, and (3) think through a moral analysis, using several ethical principles that we discuss in Chapter 3.

George Steiner and John Steiner* list 10 reasons why moral problems are often complex and difficult and require reasoning from ethical principles:

1. **Managers confront a distinction between facts and values when making ethical decisions.** Facts are statements about what is; values are views individuals hold independently from facts. A full description of the facts in business problems does not automatically give a just answer.
2. **Good and evil exist simultaneously, interlocked.** The availability of Paraquat, a chemical manufactured by Imperial Chemical Industries in England and Chevron Chemical Company in America, increases crop yield but is toxic to humans and has led to illnesses and deaths in less developed countries. Should firms export this product to countries, even if some countries know the effects but still request the product?
3. **Knowledge of consequences is limited.** Results that owners and managers sometimes intend to happen often have very different effects on employees and customers. Facts often do not justify negative consequences of intended actions.
4. **The existence of multiple corporate constituencies exposes management to competing and conflicting ethical claims.** Tobacco farmers give ethical priority to the tobacco economy in the South, as do stockholders. The Surgeon General's office and the medical establishment argue against harmful effects of smoking. Managers in this industry must weigh these pros and cons in doing business.
5. **Multiple constituencies often use conflicting ethical arguments to justify their claims.** Who is right and who is wrong? Managers must be able to recognize conflicting premises and assumptions in moral arguments. In Niagara Falls, the Love Canal Homeowners Association charged Hooker Chemical Corporation with disregard for the health of residents near the canal because, during the 1940s, 22,000 tons of highly toxic, carcinogenic chemical wastes were dumped. Birth defects, miscarriages, and nerve and respiratory illnesses resulted. Hooker's defense was that the country needed the chemicals. In 1990, health officials declared the area once again inhabitable, and residents are moving back to houses once condemned. Who is to be believed and on what grounds?
6. **Ethical standards change over history.** In the 1950s, U.S. firms made payoffs to foreign officials; with the 1977 passage of the Foreign Corrupt Practices Act, bribes and payoffs are illegal. In certain Arab, Asian, African, and Latin American countries, payoffs are still part of doing business. Ethically correct conduct is an elusive goal, and applying ethical standards is an art.
7. **Human reasoning is imperfect.** Well-intentioned managers make mistakes in their ethical judgment. When faced with the temptation for profit performance, honest managers may compromise their standards, as did Robert Beasley at Firestone Tire and Rubber Company when he embezzled over $500,000 from a $12.6 million slush fund he managed. He was caught by the IRS and served 4 years in jail.
8. **Ethical standards and principles are not always adequate in resolving conflicts.** No principles can replace human judgment in very complex cases.
9. **Twentieth-century [and we add twenty-first–century] managers are faced with new ethical problems that exceed traditional concerns such as honesty, charity, and modesty.** Now, managers must weigh and balance human life against economic factors in decisions. How should cancer studies that show that workers and residents exposed to plant emissions risk illness be balanced against costs of emission regulation, inflationary impact, capital investment reduction, and loss of jobs and economic benefits from closed plants?
10. **Managers in large organizations must now deal with ethical complexities.** These include moral problems such as organizational versus public interest loyalty, preferential hiring of certain classifications of individuals, and peaked performance of individuals before retirement.

Given the complexity of most ethical decisions, it is clear that simple "yes" and "no" answers are insufficient. Ethical reasoning should, therefore, help us sort out fact from fiction, assumptions and inferences, alternatives and options, and benefit and cost alternatives to help us make more informed, responsible moral decisions.

*Adapted from George Steiner and John Steiner. *Business, Government, and Society*. 5th ed. New York: Random House, 1988, 373–376. Used with permission of McGraw-Hill Publishing Company.

1.6 CAN BUSINESS ETHICS BE TAUGHT AND TRAINED?

Given the complexity and often vague nature of ethical problems and moral dilemmas, the question arises, "Can business ethics, then, be taught or instructed?" This ongoing debated question has no final answer. Studies continue to address the issue. One study, for example, that surveyed 125 graduate and undergraduate students in a business ethics course at the beginning of a semester showed that students did not reorder their *priorities* at the end of the semester on the importance of 10 social issues, but they did *change the degree of importance* they placed on the majority of the issues surveyed (Stead and Miller 1988). What, if any, value can be gained through teaching and training ethical principles and their uses in business?

We begin this discussion by stating what business ethics courses *cannot* or should not, in our judgment, do. Ethics courses should not advocate a single set of rules to play by or offer one best or only solution to specific ethical problems. There may, given the facts and circumstances of situations, be more and less desirable courses of action to take. Decisions will depend on facts, inferences, and rigorous, logical ethical reasoning. Neither should ethics courses or training sessions promise "superior" or absolute ways of thinking and behaving in situations. Rigorous, informed, and conscientious ethical analysis does not mean the best or only way to reason moral problems.

Ethics courses and training *can* do the following (Jones 1988–1989):

- Provide people with rationales, ideas, and vocabulary to help them participate effectively in the process of ethical decision making
- Help people "make sense" of their environments by "abstracting" and selecting ethical priorities
- Provide intellectual weapons to do battle with advocates of economic fundamentalism and those who violate ethical standards
- Enable employees to act as alarm systems for company practices that will not pass society's ethical tests
- Enhance conscientiousness and sensitivity to moral issues and commitment to finding moral solutions
- Enhance moral reflectiveness and strengthen moral courage
- Increase the ability of people to become morally autonomous ethical dissenters, and the conscience of a group
- Improve the moral climate of the firm by providing ethical concepts and tools to use for creating ethics codes and social audits

Other scholars argue that ethical training can add **value** to the moral environment of a firm and to relationships in the workplace in the following ways (Hanson 1987):

- Finding a match between an employee's and employer's values
- Managing the pushback point where one's values are tested by peers, subordinates, and superiors
- Handling an unethical directive from one's boss
- Coping with a performance system that encourages cutting ethical corners

Teaching and training business ethics, then, does not promise to provide answers to complex moral dilemmas, but thoughtful and resourceful business ethics educators can facilitate the development of *awareness* of what is and is not ethical; help individuals and groups realize that their ethical tolerance and decision-making styles decrease unethical blindspots; and enhance a curiosity and concern to discuss moral problems openly in the workplace. Figure 1-4 illustrates how this book will implement our plan of approach.

Before summarizing this chapter, we briefly summarize Kohlberg's six stages of moral development to illustrate a major theory in this field.

Stages of Moral Development

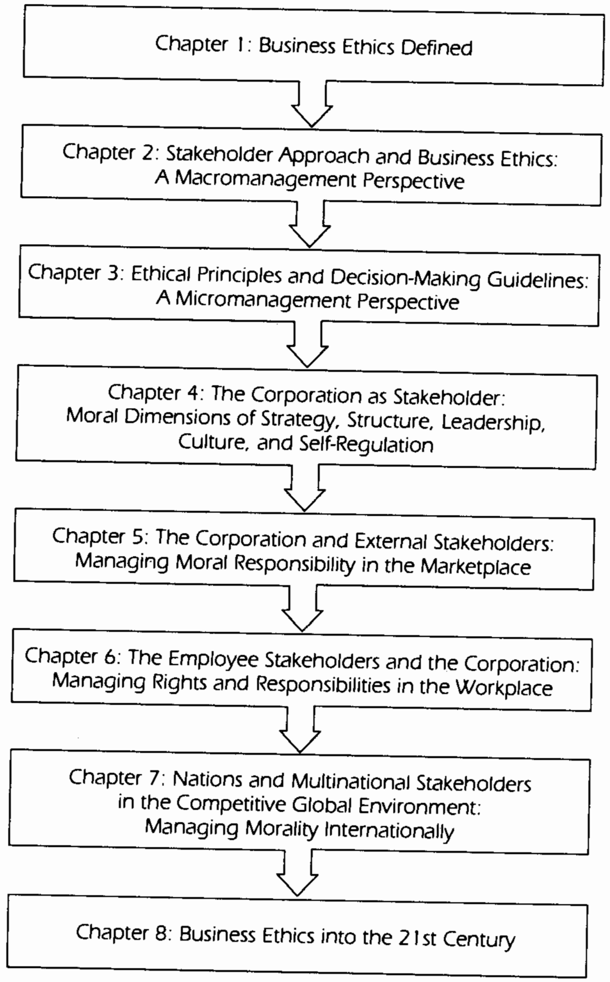
Lawrence Kohlberg's (1973) three levels with six stages of moral development offers a guide that can be used to observe our (and others') level of moral maturity, especially as we engage in different organizational transactions. Whether, and to what extent, ethical education and training contribute to one's moral development in later years is not known. Most individuals in Kohlberg's 20-year study reached stages 4 and 5 by adulthood. Only a few attained the sixth stage. The three levels and six stages include:

Level 1: Preconventional level (self-orientation)

Stage 1: Punishment avoidance: Avoiding punishment by not breaking rules. There is little awareness of others' needs.

Stage 2: Reward seeking: Acting to receive rewards for self. There is awareness of others' needs, but not of right and wrong as abstract concepts.

Figure 1-4 Plan of the Book



Level 2: Conventional level (others orientation)

Stage 3: Good person: Acting "right" to be a "good person" and to be accepted by family and friends, not to fulfill any moral ideal.

Stage 4: Law and order: Acting "right" to comply with law and order and norms in societal institutions.

Level 3: Postconventional, autonomous, or principles level (universal, humankind orientation)

Stage 5: Social contract: Acting "right" to reach consensus by due process and agreement. Person is aware of relativity of values and tolerates differing views.

Stage 6: Universal ethical principles: Acting "right" according to universal, abstract principles of justice, rights. Person reasons and uses conscience and moral rules to guide actions.

Refer to these stages when attempting to resolve a moral conflict at work or in other settings. Observe and identify at which level and stage the individuals or groups are. At which level and stage are the arguments of those resolving a moral dilemma?

SUMMARY

Business ethics deals with what is "right and wrong" in business decisions, behavior, and policies. Business ethics provides principles and guidelines that assist in making informed choices to balance economic interests and social responsibilities.

Business ethics operates at several levels: the individual, the organizational, the association, the societal, and the international. These levels illustrate the complexity and linkages of ethical decision making in business transactions. This chapter introduces the stakeholder approach to ethical decision making, which identifies constituencies and their claims at these different levels of interaction in business environments.

Stakeholders include corporations, managers, individuals, groups, societal institutions, and nations. The stakeholder approach provides a means for mapping complicated relationships between the focal and other stakeholders, a means of identifying strategies of each stakeholder, and a means for assessing moral responsibility of the constituencies.

Four myths often held about business ethics are discussed. Each myth is illustrated and refuted.

Ethical reasoning in business is discussed with steps provided to guide decision making. Three reasons why ethical reasoning is necessary in business include the following: First, laws are often insufficient and do not cover all aspects or "gray areas" of a problem; second, free-market and regulated-market mechanisms do not effectively inform owners and managers about how to respond to complex crises that have far-reaching ethical consequences; and, third, complex moral problems require an intuitive or learned understanding and concern for fairness, justice, and due process to people, groups and communities. Ethical reasoning helps individuals sort through conflicting opinions and information in order to solve moral dilemmas.

Kohlberg's three levels and six stages of moral development are presented and discussed as a means to assist in ethical decision making by identifying the basis underlying moral arguments and motivations.

Ethical education and training can be useful in developing a broader awareness of the motivations and consequences of our decisions. Business ethics does not, however, provide superior or universally correct solutions to morally complex dilemmas. Principles and guidelines are provided that—with case analysis, role playing, and group discussion—can enhance insight and self-confidence in resolving moral dilemmas in which there often are two right (or wrong) solutions.

Questions

1. Why is there a renewed interest in business ethics?
2. What are three outstanding ethical issues facing businesses today?
3. What unethical practices occur most frequently in business?
4. Identify benefits for using the stakeholder approach in ethical decision making.
5. Which, if any, of the four myths in the chapter do you not accept as a myth?
6. Identify three reasons for using ethical reasoning in business situations.
7. Is the law sufficient to help managers/employees solve ethical dilemmas? Explain.
8. What are some important distinctive characteristics of ethical problems?
9. Briefly describe three or four of the benefits that can be gained through ethics courses and training.

Exercises

1. Invent and state your own definition of "business ethics." Do you believe that ethics is an important factor in business today? If you were the CEO of a corporation, how would you communicate your perspective on the importance of ethics to your employees, customers, and other stakeholder groups?

2. Conduct your own small survey of five people regarding their opinions of the importance of unethical practices in businesses today. Is more or less importance given by your interviewees to economic performance *or* to socially responsible behavior? Summarize your results.
3. You are giving a speech at a Rotary International meeting. You are asked to give an introduction to the members on business ethics. Give an outline of your speech.
4. Review Kohlberg's levels and stages of moral development. After careful consideration, briefly explain which stage predominantly, or characteristically, defines your ethical positions and arguments. Explain. Has this stage influenced a recent decision you have made or action you have taken? Explain.
5. You are applying to a prestigious business school. The application requires you to describe an ethical dilemma in your history and how you handled it. Describe the dilemma.

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C H A P T E R

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