Ethical standards require businesses and individuals to use moral principles

Experience, Human Nature

One difference between an ordinary decision and an ethical one lies in “ the point where the accepted rules no longer serve, and the decision maker is faced with the responsibility for weighing values and reaching a judgement in a situation which is not quite the same as any he or she faced before”. (Ferrell, Fraedrich, 1994) Ethics is not simply a glorified intellectual game, of no practical relevance. We become moral individuals by practice; good at being truthful by habitually telling the truth; becoming honest by trying always not to be dishonest. There is nothing abstract about business ethics. It is simply another tool to help the practical business man or woman deal with the endlessly recurring moral dilemmas of business life. There is a connection between our perception of the world and the way in which we make decisions in the world. If managers believe that they are and ought to be rational egoists, concerned only with maximising profit, they will take the decisions accordingly. If, on the other hand, they are aware of moral theories and social policies that affect their own societies and the wider world, then they will be likely to make rather different and more sophisticated judgements, (Vallance, 1995).

The idea of ethics in business focuses on the moral or ethical actions of individuals. It is in this sense that many people, in discussing business ethics, immediately raise examples of immoral or unethical activity by individuals. Included with this notion, however, is also the criticism of multinational corporations that use child labour or pay pitifully low wages to employees in less Developed Countries. Many business people are strongly influenced by their religious beliefs and the ethical norms that they have been taught as part of their religion, and apply these norms in their business activities.

Aaron Feuerstein is a prime example of someone whose actions after fire destroyed almost all of his Malden Mills factory complex kept his workers on the payroll until he could rebuild. He has stated often and publicly that he just did what his Jewish faith told him was the right thing to do (Richard T De George).

The study of Business Ethics has evolved through many years since before the 1960s. Business ethics continues to change rapidly as most organisations recognise the advantages of improved ethical conduct in business and there is an increased understanding between business ethics and financial performance. Up until 1960 ethical issues related to business were often discussed theologically. Through churches, synagogues and mosques, individual moral issues related to business ethics were addressed. Religious leaders raised questions about fair wages, labour practises and the morality of capitalism. Courses began being offered in social ethics in some catholic colleges and universities. During the 1970s business ethics began to develop as a field of study. Theologians and religious thinkers laid down groundwork suggesting that certain religious principles could be applied to business activities. Because of this professors began to teach and write about corporate social responsibility. By the end of 1970s a number of ethical issues had emerged and business ethics became a common expression. In the 1980s business academics and practitioners acknowledged business ethics as a field of study. Business ethics organisations grew and expanded to include thousands of members. Many rules of business began changing at a phenomenal rate because of less regulation. Corporations had more freedom to make decisions, and the government developed new mandatory federal sentencing guidelines to control firms that were involved in misconduct. Business ethics today is still an evolving field of study. Business ethical issues can be approached from the perspective of law, philosophy, theology or social sciences; or they can dealt with in a pragmatic spirit, seeking solution for specific managerial problems. (Ferrell, Fraedrich, Ferrell, 2002.)

Some ethical principles include: Fudicary Duty, Property Principle, Reliability Principle, Transparency Principle and Dignity Principle. Fudicary Duty involves each officer having a legal fudicary duty to act in the best interests of the stakeholders and other employee within the firm such as, loyalty. Property Principle is based on the belief that every employee should respect property as well as the rights of the owners of the property for example, theft. Reliability Principle believes that it is the employee’s responsibility to honour the commitments that they have made to the firm for example, breaching a contract. Transparency Principle is based on the belief that every employee should conduct business in a truthful and open manner and assumes they will not make decisions based on a personal agenda. Dignity Principle believes that each employee needs to respect the dignity of all individuals such as safety and privacy. Fairness Principle based on belief that stakeholders who have vested interest in the firm should be treated fairly for example they should be entitled to fair reciprocal. Citizenship Principle believes that every employee should act as responsible citizen in the community, for example they should abide and respect the laws of the community. Responsiveness Principle based on belief that employees have the responsibility to respond to requests for information about operations from various stakeholders. Being socially responsible will enable you to get greater profits, be more responsive to consumer demands and attract investment. An example of a socially responsible company is The Body Shop (Harvey, 2010).

Social Responsibility is the obligation a business assumes to have for society. To be socially responsible is to maximise positive effects and minimise negative effects on society. The economic responsibilities of a business are to produce goods and services that meet the needs and wants of society at a price that can perpetuate the business while also satisfy the needs of the investors. (Ferrell & Fraedrich, 1994) The legal responsibilities of businesses are the laws that they must obey. (Ferrell & Fraedrich, 1994) The civil laws are the rights and duties of individuals and organisations. The criminal laws prohibit specific actions and impose fines and/or imprisonment as punishment for breaking the law. (Harvey, 2010) At a minimum, companies are expected to be responsible for their employees obeying local, state and federal laws. Ethical responsibilities are the behaviours or activities that are expected of the business by society but are not codified in law. (Ferrell & Fraedrich, 1994) These are the standards, norms, or expectations that reflect the concern of major stakeholders. (Harvey, 2010) Consider the responsibility issues for many riverboat casinos that serve their patrons as many free drinks as they want. The result is that many of the drunken patrons may decide to drive after leaving their premises and then cause an accident. For example, one patron at the Players Casino in Louisiana, had twelve drinks in two hours, got into his vehicle and then crashed into a van carrying five people, causing three of them to lose their lives. Although the casino operators fulfilled their legal responsibility to provide alcoholic beverages to adults only, they sometimes fail to address the ethical issues presented by the spirit of law. The final obligation a business assumes towards society is philanthropic responsibilities. These are the behaviours and activities that society desire and business values dictate. Philanthropic responsibilities represent the company’s desire to give back to charity. For example, Ben & Jerry’s donate 7. 5% of pretax profits to charity. (Ferrell, Fraedrich, Ferrell, 2002.)

The idea of social responsibility became prominent during the 1960s in response to changing social values. Many businesses have tried to determine what relationships, obligations and duties are appropriate between the business organisation and society. (Ferrell, Fraedrich, Ferrell, 2002.) Therefore, Social Responsibility can be viewed as a social contract with society, whereas ethics relates to carefully thought-out rules of moral philosophy that guide individual decision-making. While business ethics relates to the effect of moral rules and principles on individual decisions, social responsibility is concerned with the decisions the organisation makes and their effect on society, (Ferrell & Fraedrich, 1994).

Corporate Social Responsibility refers to any voluntary business activity that goes beyond legal compliance, enhancing economic performance and contributing to sustainable development of the environment and the community in which a business operates. Corporate Social Responsibility is a decision for business and generally a company’s CSR activity will fall under one of four priority headings: workplace, environment, community or marketplace. Corporate Social Responsibility is getting more and more attention as the natural complement of social activities and business sustainability is gaining recognition. Contemporary developments, values and stakeholder expectations have shifted and to survive companies must develop new activities and processes that reflect the societal, demographic, economic and legislative changes. Better working relationships with stakeholders can result from the greater management of expectations, (IBEC Policy, 2006).

Business ethics attempts to apply general moral principles to business activities in order to resolve, or at least clarify, the moral issues which typically arise in business. (Vallance, 1995) Moral philosophy refers to the principles or rules that people use to decide what is right and wrong. For example, a production manager may be guided by a general philosophy of management that emphasises encouraging workers to know as much as possible about the product they are manufacturing. It comes into play when the manager must make decisions such as whether to notify employees in advance of upcoming layoffs. Although the workers might like advance warning, its side effects may have an affect on production quality and quantity. There are many moral philosophies and each one is complex. (Ferrell, Fraedrich, Ferrell, 2002) Some types include: Teleology, Deontology, The Relativist Perspective, Virtue Ethics and Justice. Teleology is an act considered morally right or acceptable if it produces some desired result i. e., realisation of self-interest or utility. The two teleological philosophies are Egoism and Utilitarianism. Egoism is the right or acceptable behaviour in terms of the consequences for the individual. (Harvey, 2010) In an ethical decision- making situation, an egoist will probably choose the alternative that contributes most to their own self interest. Many believe that egoists are inherently unethical, that such people and organisations are short term oriented and will take advantage of any opportunity or consumer. For example, some telemarketers demonstrate this negative egoistic tendency when they prey on elderly consumers who may be vulnerable because of loneliness or the fear of losing financial independence. Many senior citizens fall victim to fraudulent telemarketers each year. In many cases they lose all their savings and in some cases their homes. Utilitarianism is concerned with the consequences in terms of seeking the greatest good for the greatest number of people. Utilitarian decision making relies on a systematic comparison of the costs and the benefits to all affected parties. Using a cost benefit analysis, a utilitarian decision maker calculates the utility of the consequences of all possible alternatives and then selects the one that results in the greatest utility. For example, the Supreme Court has said that employers are responsible for the sexual misconduct of supervisors, even if the employers knew nothing about it. Thus, it has established a strict standard for harassment on the job. (Ferrell, Fraedrich, Ferrell, 2002) Deontology focuses on the rights of the individual and on the intentions associated with behaviour not on the consequences. It believes that there are some things we should not do regardless of the utility. (Harvey, 2010)

Unlike utilitarian’s, deontologists argue that there are some things that we should not do, even to maximise utility. For example, deontologists would consider it wrong to kill or harm an innocent person, no matter how much utility might result from doing so, because such an action would infringe on that person’s rights as an individual. (Ferrell, Fraedrich, Ferrell, 2002) The Relativist Perspective states that ethical behaviour is defined by experience of the individual and the group. (Harvey, 2010) Relativists use themselves or the people around them as their basis for defining ethical standards. The relativist observes the actions of members of a group and attempts to determine the group consensus on a given behaviour. A positive consensus signifies that the action is considered right or ethical. Such judgements may not remain the same forever i. e., advertising in the accounting profession. Relativism acknowledges that we live in a society in which people have many different views and bases from which to justify decisions as right or wrong. The relativist looks to the interacting group and tries to determine probable solutions based on the group consensus. When formulating business strategies and plans, a relativist would try to anticipate the conflicts that will arise between the different philosophies held by members of the organisation, its suppliers, customers and the community at large. (Ferrell, Fraedrich, Ferrell, 2002) Virtue Ethics consists of trust, self-control, empathy, fairness and truthfulness. (Harvey, 2010) Attributes in contrast to virtue would include lying, cheating, fraud and corruption. The problem of virtue ethics comes in its implementation within and between cultures. Those who practise virtue ethics go beyond societal norms. For example, if an organisation tacitly approves of corruption, the employee who adheres to the virtues of trust and truthfulness would consider it wrong to sell unneeded repair parts despite the organisations approval to do so. (Ferrell, Fraedrich, Ferrell, 2002) Justice is fair treatment and due reward in accordance with ethical or legal standards. Justice deals more with the issue of what individuals feel they are due based on their rights and performance in the workplace. (Ferrell, Fraedrich, Ferrell, 2002) One type of organisational justice is distributive justice. It is based on the evaluation of the outcome or results of the business relationship. If you perceive that you are underpaid, you may cut back on your amount of work output. Another type is procedural justice. It is based on the processes and activities that produce the results or outcomes. A procedural justice climate is expected to positively influence workplace attitudes and behaviours related to work group cohesion. (Ferrell, Fraedrich, Ferrell, 2002) Interactional justice is another type of justice. It is based on the evaluation of the communication processes used in the business relationship. Supervisor visibility and work-group perceptions of cohesion are associated with procedural justice. Wainwright Bank and Trust Corporation in Boston has made a commitment to promote justice to “ all its stakeholders” with a “ sense of inclusion and diversity that extends from the boardroom to the mail room”. This example illustrates that procedural justice seeks to establish relationships by providing understanding and inclusion in the decision-making process. (Ferrell, Fraedrich, Ferrell, 2002) Organisational Justice is the study of fairness in organisations. Companies may promote organisational justice by paying their employees what they deserve, offering workers a voice, openly following fair procedures, training all workers to be fair and explaining decisions thoroughly in a manner demonstrating dignity and respect. (Harvey, 2010)

An ethical issue is a problem, situation, or opportunity requiring an individual or organisation to choose among several actions that must be evaluated as right and wrong, ethical or unethical. Ethical issues typically arise because of conflicts between individuals personal moral philosophies and values and the values and attitudes of the organisations in which they work and the society in which they live. Ethical issues can be explored in terms of the major participants and functions of the business. A good rule of thumb is that an activity approved by most members of an organisation and customary in the industry is probably ethical. An issue, activity, or situation that can withstand open discussion and survive untarnished probably poses no ethical problem. (Ferrell & Fraedrich, 1994). A reason for unethical behaviour is individual differences in cognitive moral development. Situational determinants of unethical behaviour involves the organisation encouraging behaviour that violates ethical standards or workers emulate the unethical behaviour of their superiors. (Harvey, 2010)