PART 1

Business Ethics Overview

Chapter 1

Introduction to business ethics

'It takes 20 years to build a reputation and five minutes to ruin it.'
Warren Buffett, 1930–,
American investment entrepreneur

Chapter aim

To provide an introduction to business ethics and enable the development of a clear understanding of the numerous factors that enhance ethical awareness in business.

Chapter objectives

1. Gain an appreciation of the range of industry sectors in the business environment that are experiencing ethical challenges.
2. Critique current attitudes to business ethics.
3. Describe the four levels on which business ethics operates.
4. Clarify the concepts of legality, morality, personal character and values in relation to ethics.
5. Differentiate moral relativism from moral absolutism, and extrapolate Kohlberg's Theory of Moral Development to organisations.
6. Identify which market, government and social drivers are currently operating to increase ethical awareness in business.

Ethics in the media: Personal reputation

Reputation.com provides a technological service that protects and polishes the online image of people who want to protect their personal reputation. It has 1.6 million customers, each of whom pays US$99 a year for the service, which monitors when a person is mentioned online and alerts them if it comes across anything sensitive ('The price of reputation' 2013).

Introduction

In what has been described as the worst industrial accident in South Asia since the Bhopal disaster in 1984, the collapse of an eight-storey garment factory at Rana Plaza in Dhaka, Bangladesh, resulted in the deaths of more than 1100 people and a greater number of injuries ('Disaster at Rana Plaza' 2013). In the past, this type of event would have been viewed as a tragic incident culminating from poor construction and lack of ongoing maintenance in a localised context, but, in today's business environment, the circumstances take on a larger and more global perspective in regard to ethical responsibility and culpability.

The owners of the factory clearly violated their duty of care and refused to take action, although the local police and industry associations had notified them that the building was unsafe. However, blame and ethical accountability has extended beyond the owners of the factory. Labour lobbyists have critiqued the actions of the international companies who commission work through such factories and extensively utilise low-wage manufacturing sites. Consumers are also now becoming cognisant of how their purchases may be contributing to unethical practices, especially where low-cost items purchased in one country may come at a human cost in another. Increasingly, we are seeing ethical responsibility becoming far more pervasive with vicarious responsibility being demanded throughout the supply chain and encompassing the ultimate consumer. In recognition of this responsibility, the multinational corporations (MNCs) who sourced from the Dhaka factory have promised compensation to victims and their families. Walmart has launched a fire safety training academy in Bangladesh, while Gap have announced plans to help factory owners upgrade their plant. However, these gestures could be deemed reactive rather than proactive as the companies involved attempt to cover up a lack of ethical oversight.

The business world is littered with the consequences of ethical failures, as is evident from the banking disasters in the recent global financial crisis (GFC) and the collapse of organisations such as Enron, WorldCom and Lehman Brothers in the United States, Satyam in India, Akai Holdings in Hong Kong and HIH Insurance, Storm Financial and Centro in Australia, as well as global firms such as Arthur Andersen. All these company collapses have been sobering and important reminders of the consequences of ethical failure. However, those are only the companies that have failed – many more are fully operational but grappling with key ethical issues.

Ethics on reflection: The Enron scandal

For an insightful clip about the Enron scandal see <www.youtube.com/watch?v=2GdvKh3Gr3E>. What were the major ethical shortcomings in this company?

Ethical issues in industry sectors

Here is a challenge – have a look at today's media, either online or a hard copy newspaper, and see if you can spot an ethical issue in business. You will probably find an issue with remarkable ease, as scarcely a week goes by without a company coming under attack for wrongdoing. While some industry groups feature more predominantly, notice that ethical issues are evident in all sectors.

The banking and finance sector – particularly since the GFC has received a lot of attention, and, in 2013, the European Union (EU) fined six of the world's top financial institutions a record €1.7 billion for rigging financial benchmarks. The penalty was the largest fine to date imposed by the European Commission (EC) (*Top banks in record fine* 2013). In the United Kingdom, a parliamentary committee published a long-awaited report into the failings of the British banking system, and recommended the creation of a new criminal offence for reckless misconduct by banks' management teams ('The world this week' 2013).

Ethics in the media: Financial scandals

For a full report on the EU's fine of the world's top financial institutions, see 'Top banks in record fine' (2013) at <http://nz.finance.yahoo.com/video/top-banks-record-fine-154825136.html>.

A US federal investigation was initiated into the hiring practices of JP Morgan throughout Asia, focusing on South Korea, Singapore and India, where it appears that flagrant cases of **nepotism** occurred. The Security Exchange Anti-Bribery Unit began investigations into the bank's practice of hiring the children of China's elite in order to win business with anonymous sources, indicating that the bank went so far as to create a formal sons and daughters program (Silver-Greenberg 2013).

nepotism – where an employee hired, promoted or favoured is a member of the manager's or supervisor's family.

The retail industry – has been lobbied extensively in regard to safety and labour practices in its supply chain, with big retailers being named. Marks and Spencer were accused of selling clothes made by child labour. Similarly, Walmart and Walt Disney have, historically, been the focus regarding labour abuses in Bangladeshi factories, and Nike have for some time now responded to public pressure and produced a Memorandum of Understanding to be signed with every factory that produces Nike shoes.

The automobile industry – implicated for lack of duty of care and defective products. Firestone tyres used on a Ford Explorer were found to be faulty and potentially lethal. A jury ordered Ford to pay more than US$61 million to the family of 17-year-old Lance Crossman, who was killed in an accident when his friend fell asleep while driving an Explorer. Ford were found liable in the accident because they knowingly sold a vehicle that handled poorly and was not stable.

The food and drink industry – Starbucks have been challenged in the UK for their tax minimisation strategies, and, previously, anti-globalisation protesters have criticised Starbucks over labour standards in their retail outlets, which they have subsequently endeavoured to address. As a result of consumer dissatisfaction, Starbucks announced in December 2012 that for the next two years they would voluntarily pay extra tax in Britain to the tune of around £10 million per year more than their official tax obligation ('Wake up and smell the coffee' 2012).

The hotel industry – responding to growing public concern about the environmental and social impact of some of its holiday resort developments, hotel giant, Six Continents, which own brands such as Holiday Inn, Intercontinental and Crown Plaza, published their first environmental and social report in 2002.

Ethics in practice: Ethical crises

For a discussion of ethical crises, view the video, *The ethics of business: Where and why it can go wrong* (2013), available at: <www.youtube.com/watch?v=vKWNFAiQHG8>.

The organisations caught up in these wrongdoings have often suffered financial and reputational damage, and, as Edson Spencer, a former Chairman of Honeywell, has concluded, it takes many years to build a good reputation, and one bad move can destroy it overnight (Cialdina, Petrova & Goldstein 2004). Environmental factors, such as deregulation, liberalisation, international competition and demands for profit performance, are undoubtedly creating pressures on business behaviour. The possibility that ethical and commercial considerations will conflict has always faced those who run companies; it is not a new problem. The difference is that wider and more critical interest is being taken in decisions and the ethical judgements which lie behind these decisions (Cadbury 1987).

Some companies appear to be primarily motivated by the strategic need to manage their reputation and risk, rather than recognising their ethical accountability. Smart companies are, however, increasingly seizing the chance to take an ethical stance and to demonstrate responsibility, while remaining understandably cautious of ethical positioning in case they put themselves on a pedestal from which they might fall.

Ethics in the media: The 12 least ethical firms

What happens when an organisation is not concerned with creating an ethical climate and culture? *The Huffington Post* recently reported on the findings from research carried out by Swiss research firm, Covalence, which identified the 12 least ethical companies in the world (Riser 2010). A slideshow of these 12 companies and their wrongdoings can be found at: <www.huffingtonpost.com/2010/01/28/the-least-ethical-compani_n_440073.html?slidenumber=0ZHHXzV%2FaPE%3D&slideshow>.

Current views about business ethics

Many believe that the term business ethics is an oxymoron, with 'Business' and 'Ethics' being at the opposing ends of a continuum, much the same as jumbo shrimp and military intelligence (Ketz 2006).

As Neville Cooper, the former chairman of the London-based Institute of Business Ethics has commented, in relation to business ethics the points of view range from the hard-bitten cynic, who might state that business ethics is an oxymoron, through to the pragmatist who indicates that business is difficult enough without adding ethics into it. Concern for ethics in business can range from being uninterested to motivations to protect the brand, right through to the more committed that see ethics as being synonymous with good business.

Published every two years, the Ethics Research Centre's National Business Ethics Survey (NBES) is a recognised barometer of workplace ethics. A survey conducted in 2011 found ethics in business is at its weakest point since 2000, and that in the previous two years, 45% of US employees observed a violation of the law or ethics standards at their places of employment. Curiously, reporting of this wrongdoing was at an all-time high – 65% and 20% of whistleblowers saw retaliation for their actions (Ethics Resource Centre 2011).

How does this compare to the UK? It appears that three out of five managers in the UK have felt pressure to behave unethically at work, according to research from the Institute of

Leadership and Management (ILM) and Business in the Community (BITC). The report found that 9% of managers have been asked to break the law at some point in their career, while one in 10 have left their jobs as a result of being asked to do something that made them feel uncomfortable. In the survey of 1000 managers across the public and private sectors, 93% said their organisation had a value statement, but over 43% had been pressured to behave in direct violation of it. Encouragingly, 77% of managers believe that since 2008 the general public expectations of UK organisations' ethical behaviour have risen (Ethical Performance 2012a).

Generational attitudes

Recently there has been some interesting research into whether there are generational differences when it comes to views on business ethics. The Ethics Resource Centre (2013) published a study titled *Generational differences in workplace ethics: A supplementary report of the 2011 National Business Ethics Survey*, which examines the differences in attitudes towards ethical issues among four generational groups (**Traditionalists**, **Baby Boomers**, **Gen X**, and **Millennials/Gen Y**). The study found that the Millennials (born 1981–2000), who are the youngest workers, are significantly more likely than their older colleagues to feel pressure from others to break ethical rules, with pressure easing as workers spend more time in the workforce and learn ways of coping with their work environment.

Traditionalists – born between 1925 and 1945; hardworking, respectful of authority, and value loyalty.

Baby boomers – born between 1946 and 1964; hardworking, idealistic, and committed to harmony.

Gen X – born between 1965 and 1980; entrepreneurial, flexible and self-reliant, and comfortable with technology.

Millennials/ Gen Y – born between 1981 and 2000; tech-savvy, appreciative of diversity, and skilled in multi-tasking.

Generational attitudes: Millennials (© shutterstock.com/Andre Adams)

Another finding in the generational study was that younger workers observed more ethical misconduct in the workplace during the previous 12 months than their older colleagues, with Millennials observing more instances than any other generation. The types of misconduct observed include:

- personal business on company time: 26%
- lying to employees: 22%
- abusive behaviour: 21%
- company resource abuse: 21%
- discrimination: 18%.

Four levels of business ethics

It should be noted that business ethics can be examined from a number of levels as depicted in Figure 1.1.

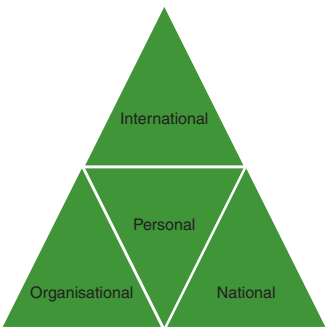

Figure 1.1 Four levels of business ethics

- **Personal level** – at the individual level, each of us must routinely engage in ethical decision-making as we grapple with what is the right thing to do in a range of business circumstances.
- **Organisational level** – at the organisational level, we are looking at the ethical actions of the firm, recognising that circumstances of corporate wrongdoing are usually the result of ongoing and aggregate inappropriate decision-making. This level evokes a fundamental discussion of **corporate moral agency**, where it has been argued that corporations, while not possessing human embodiment, are moral agents with accompanying rights and are accountable in much the same way as individuals (French 1984).
- **National level** – at the national level, ethics focuses on the collective expectations of society; that is, the shared norms and values that guide ethical business behaviour, as well as the end-state effects on a country as a result of corporate behaviour and what is deemed appropriate and inappropriate by society. For example, an ethical issue at this level is the presence of **corruption** and **bribery**.
- **International level** – at the international level, we are seeing coordinated efforts across national boundaries to address issues that arise as a result of globalisation, as well as prominent societal concerns. Prompted by directives such as the millennium goals, interagency agreements and cooperation are required to coordinate efforts and achieve outcomes. Notable examples are international sustainability efforts, tax minimisation and **Fair Trade**.

corporate moral agency – corporations, while not embodied in the way humans are, are moral agents with accompanying rights, and are accountable in the same way as individual people.

corruption – misuse of entrusted powers for private gain.

bribery – the offering, accepting or soliciting of an inducement (gifts, donations, services) for an action.

Fair Trade – engaging producers, distributors and consumers in the eradication of exploitation and the pursuit of trading conducted fairly and in accordance with Fair Trade practices.

Ethics in the media: National bribery

In Guatemala, more than 15% of respondents to a national survey reported that they had paid a bribe in order to reconnect to the public water system. In Bangladesh, 64.5% of citizens responded that they had paid a bribe when interacting with law enforcement agencies (Transparency International 2009a).

Ethics in the media: Violating international sanctions

Standard Chartered Bank agreed to pay a staggering US$340 million to settle claims made by the New York State Financial Regulator that the bank had possibly contravened American sanctions on Iran. The bank which appears to have put profit before legislative requirements, at the risk of losing their New York operating licence ('The world this week' 2012).

Defining business ethics

business ethics – rules, standards, codes or principles that provide guidelines for morally right behaviour in specific business situations.

unethical behaviour – acts of omission or commission by individuals, groups of individuals or organisations, which violate socially constructed norms, regulatory, and/or legal structures.

In an aptly titled paper, 'Defining business ethics: Like nailing jello to a wall', Lewis (1985) reflected on the difficulties of defining business ethics but arrived at the conclusion that **business ethics** is comprised of rules, standards, codes or principles that provide guidelines for morally right behaviour in specific business situations. **Unethical behaviour** has also been defined as acts of omission, or commission, by individuals, groups of individuals, and organisations, which violate socially constructed norms, regulatory and/or legal structures (Khan, Tang & Zhu 2013). The question, of course, is whose constructed norms they are referring to. Are they the norms of one's ethnic group or subculture, national culture, or the organisational climate in which an individual is operating? In this context, socially constructed norms are deemed to be higher order social norms such as honesty, transparency and avoiding conflicts of interest.

Differentiating business ethics

In order to build our understanding of what is business ethics, we need to differentiate between the capacious concept of ethics and related terminology.

Legality and ethics

On 3 December 1984, an accidental leakage of Methyl Isocyanate gas in the Indian city of Bhopal killed some 2400 residents and injured a further 200 000; yet, given inadequacies in the legislative framework, apparently no law was violated. It seems that the company involved, Union Carbide, were morally responsible if not legally culpable. Conversely, an activity may be legal but ethically questionable, as we see in the examples of Apartheid in South Africa, animal testing, and labour abuses in developing countries.