CHAPTER 5

ETHICAL DECISION MAKING AND ETHICAL LEADERSHIP

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CHAPTER OBJECTIVES

- To provide a comprehensive framework for ethical decision making in business
- To examine the intensity of ethical issues as an important element influencing the ethical decision-making process
- To introduce individual factors that may influence ethical decision making in business
- To introduce organizational factors that may influence ethical decision making in business
- To explore the role of opportunity in ethical decision making in business
- To explain how knowledge about the ethical decision-making framework can be used to improve ethical leadership
- To provide leadership styles and habits that promote an ethical culture

CHAPTER OUTLINE

A Framework for Ethical Decision Making in Business

- *Ethical-Issue Intensity*
- *Individual Factors*
- *Organizational Factors*
- *Opportunity*
- *Business Ethics Evaluations and Intentions*

Using the Ethical Decision-Making Framework to Improve Ethical Decisions

The Role of Leadership in a Corporate Culture

Leadership Styles Influence Ethical Decisions

Habits of Strong Ethical Leaders

- *Ethical Leaders Have Strong Personal Character*
- *Ethical Leaders Have a Passion to Do Right*
- *Ethical Leaders Are Proactive*
- *Ethical Leaders Consider Stakeholders' Interests*
- *Ethical Leaders Are Role Models for the Organization's Values*
- *Ethical Leaders Are Transparent and Actively Involved in Organizational Decision Making*
- *Ethical Leaders Are Competent Managers Who Take a Holistic View of the Firm's Ethical Culture*

Understanding Ethical Decision Making and the Role of Leadership

AN ETHICAL DILEMMA*

Troy Buchanan was in a bind. As a recent graduate of a prestigious journalism school, he had taken a job in the editorial department of Circa Communications, a fast-growing company in the online publications industry. Circa relocated Troy, his wife, and their two-year-old son from the Southwest to Atlanta, Georgia. On arriving, they bought their first home and a second car. Troy was told that the company had big plans for him. Therefore, he did not worry about being financially overextended.

Several months into the job, Troy found that he was working late into the night, and even on his days off, to complete his editorial assignments before the deadlines passed. He knew that the company did not want its clients billed for excessive hours and that he needed to become more efficient if he wanted to move up in the company. He asked one of his co-workers, Mary Jo, how she managed to be so efficient in completing her editing duties.

Mary Jo quietly explained: "Troy, there are times when being efficient isn't enough. You need to do what is required to get ahead. The owners just want results—they don't care how you get them."

"I don't understand," said Troy.

"Look," Mary Jo explained, "I had the same problem you have a few years ago, but Mr. Hunt [the supervisor of the editorial department] explained that everyone works 'off the clock' so that the editorial department shows top results and looks good. And when the editorial department looks good, everyone in it looks good. No one cares if a little time gets lost in the shuffle."

Troy realized that "off the clock" meant not reporting all the hours required to complete a project. He also remembered one of Circa's classic catch phrases, "results, results, results." He thanked Mary Jo for her input and went back to work. Troy thought of going over Mr. Hunt's head and asking for advice from the general manager, but he had met her only once and did not know anything about her.

QUESTIONS | EXERCISES

1. What should Troy do?
2. Describe one process through which Troy might attempt to resolve his dilemma.
3. Consider the impact of this company's approach on young editors. How could working long hours be an ethical problem?

*This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.

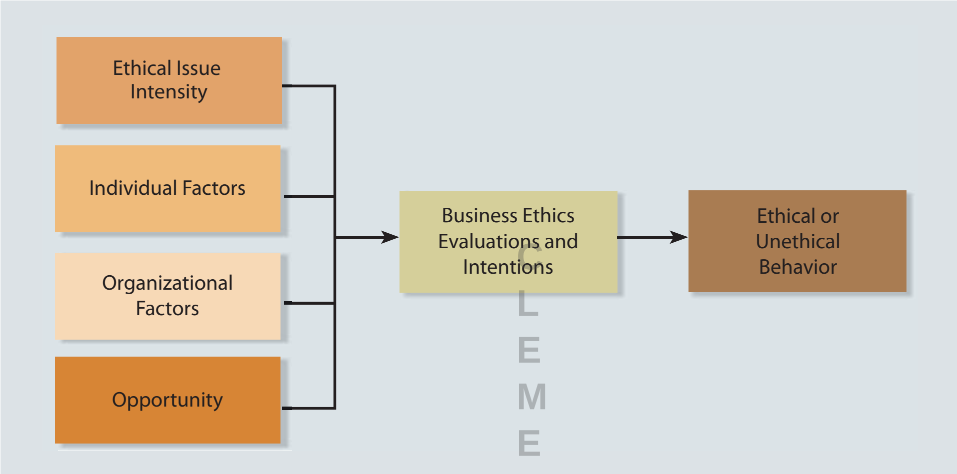
To improve ethical decision making in business, one must first understand how individuals make ethical decisions in an organizational environment. Too often it is assumed that individuals in organizations make ethical decisions in the same way that they make ethical decisions at home, in their families, or in their personal lives. Within the context of an organizational work group, however, few individuals have the freedom to decide ethical issues independent of organizational pressures.

This chapter summarizes our current knowledge of ethical decision making in business and provides insights into ethical decision making in organizations. Although it is impossible to describe exactly how any one individual or work group might make ethical decisions, we can offer generalizations about average or typical behavior patterns within organizations. These generalizations are based on many studies and at least six ethical decision models that have been widely accepted by academics and practitioners.[1] Based on these models, we present a framework for understanding ethical decision making in the context of business organizations. In addition to business, this framework integrates concepts from philosophy, psychology, sociology, and organizational behavior. This framework should be helpful in understanding organizational ethics and developing ethical programs.

A FRAMEWORK FOR ETHICAL DECISION MAKING IN BUSINESS

As Figure 5.1 shows, our model of the ethical decision making process in business includes ethical issue intensity, individual factors, and organizational factors such as corporate culture and opportunity. All of these interrelated factors influence the evaluations of and intentions behind the decisions that produce ethical or unethical behavior. This model does not describe how to make ethical decisions, but it does help one to understand the factors and processes related to ethical decision making.

FIGURE 5.1 Framework for Understanding Ethical Decision Making in Business



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Ethical Issue Intensity

The first step in ethical decision making is to recognize that an ethical issue requires an individual or work group to choose among several actions that various stakeholders inside or outside the firm will ultimately evaluate as right or wrong. The intensity of an ethical issue relates to its perceived importance to the decision maker.[2] **Ethical issue intensity,** then, can be defined as the relevance or importance of an ethical issue in the eyes of the individual, work group, and/or organization. It is personal and temporal in character to accommodate values, beliefs, needs, perceptions, the special characteristics of the situation, and the personal pressures prevailing at a particular place and time.[3] Senior employees and those with administrative authority contribute significantly to intensity because they typically dictate an organization's stance on ethical issues. For instance, insider trading is considered to be a serious ethical issue by the government as the intent is to take advantage of inside information not available to the public. Therefore, it is an ethical issue of high intensity for regulators and government officials. Consider the government's investigation of so-called "expert-network" firms. These firms try to appear as legitimate consultants, but the government believes they might be providing inside information. Technology companies that are on the verge of new products, patents, or other innovations that will affect their market price are especially targeted by these consultants. However, if investigations show these firms to be legitimate, it is possible that the ethical issues they have raised will not turn out to be of high intensity.[4]

Under current law, managers can be held liable for the unethical and illegal actions of subordinates. In the United States, the Federal Sentencing Guidelines for Organizations contain a liability formula that judges use as a guideline regarding illegal activities of corporations. For example, many of the Enron employees and managers who were aware of the firm's use of off-balance-sheet partnerships—which turned out to be the major cause of the energy firm's collapse—were advised that these partnerships were legal, so they did not perceive them as an ethical issue. Although such partnerships were legal at that time, the way that some Enron officials designed them and the methods they used to provide collateral (that is, Enron stock) created a scheme that brought about the collapse of the company.[5] Thus, ethical issue intensity involves individuals' cognitive state of concern about an issue, or whether or not they have knowledge that an issue is unethical, which in turn indicates their involvement in making choices. The identification of ethical issues often requires the understanding of complex business relationships.

Ethical issue intensity reflects the ethical sensitivity of the individual and/or work group that faces the ethical decision-making process. Research suggests that individuals are subject to six "spheres of influence" when confronted with ethical choices—the workplace, family, religion, legal system, community, and profession—and that the level of importance of each of these influences will vary depending on how important the decision maker perceives the issue to be.[6] Additionally, the individual's moral intensity increases his or her perceptiveness of potential ethical problems, which in turn reduces his or her intention to act unethically.[7] **Moral intensity** relates to individuals' perceptions of social pressure and the harm they believe their decisions will have on others.[8] All other factors in Figure 5.1, including individual factors, organizational factors, and intentions, determine why different individuals perceive ethical issues differently. Unless individuals in an organization share common concerns about ethical issues, the stage is set for ethical conflict. The perception of ethical issue intensity can be influenced by management's use of rewards and punishments, corporate policies, and corporate values to sensitize employees. In other words, managers can affect the degree to which employees perceive the importance of an ethical issue through positive and/or negative incentives.[9]

For some employees, ethical issues may not reach the critical awareness level if managers fail to identify and educate employees about specific problem areas. One study found that more than a third of the unethical situations that lower and middle-level managers face come from internal pressures and ambiguity surrounding internal organizational rules. Many employees fail to anticipate these issues before they arise.[10] This lack of preparedness makes it difficult for employees to respond appropriately when they encounter an ethics issue. For example, subprime lenders such as Countrywide Financial failed to educate brokers about the damages of misrepresenting financial data to help individuals secure loans. This contributed to widespread organizational misconduct. Organizations that consist of employees with diverse values and backgrounds must therefore train them in the way the firm wants specific ethical issues handled. Identifying the ethical issues and risks that employees might encounter is a significant step toward developing their ability to make ethical decisions. Many ethical issues are identified by industry groups or through general information available to a firm. Flagging certain issues as high in ethical importance could trigger increases in employees' ethical issue intensity. The perceived importance of an ethical issue has been found to have a strong influence on both employees' ethical judgment and their behavioral intention. In other words, the more likely individuals are to perceive an ethical issue as important, the less likely they are to engage in questionable or unethical behavior.[11] Therefore, ethical issue intensity should be considered a key factor in the ethical decision-making process.

"Identifying the ethical issues and risks that employees might encounter is a significant step toward developing their ability to make ethical decisions."

Individual Factors

When people need to resolve ethical issues in their daily lives, they often base their decisions on their own values and principles of right or wrong. They generally learn these values and principles through the socialization process with family members, social groups, and religion, and in their formal education. Good personal values have been found to decrease unethical practices and increase positive work behavior. The moral philosophies of individuals, discussed in more detail in Chapter 6, provide principles and rules that people use to decide what is right or wrong. Values of individuals can be derived from moral philosophies to apply to daily decisions. However, values are subjective and vary a great deal across different cultures. For example, one individual might place greater importance on keeping one's promises and commitments than another would. Values could also relate to negative rationalizations, such as "Everyone does it," or "We have to do what it takes to get the business."[12] Research demonstrates that individuals with destructive personalities who violate basic core values can cause a work group to suffer a performance loss of 30 percent to 40 percent compared to groups with no "bad apples."[13] The actions of specific individuals in scandal-plagued financial companies such as AIG and Countrywide Financial often raise questions about those individuals' personal character and integrity. They appear to operate in their own self-interest or in total disregard for the law and the interests of society.

Although an individual's intention to engage in ethical behavior relates to individual values, organizational and social forces also play a vital role. An individual's attitudes as well as social norms will help create behavioral intentions that will shape his or her decision-making process. While an individual may intend to do the right thing, organizational or social forces can alter this intent. For example, an individual may intend to report the misconduct of a coworker, but when faced with the social consequences of doing so, may decide to remain complacent. In this case, social forces have overcome a person's individual values when it comes to taking appropriate action.[14] At the same time, individual values have a strong influence over how people assume ethical responsibilities in the work environment. In turn, individual decisions can be heavily dependent on company policy and the corporate culture.

The way the public perceives individual ethics generally varies according to the profession in question. Telemarketers, car salespersons, advertising practitioners, stockbrokers, and real estate brokers are often perceived as having the lowest ethics. Research regarding individual factors that affect ethical awareness, judgment, intent, and behavior include gender, education, work experience, nationality, age, and locus of control.

Extensive research has been done regarding the link between **gender** and ethical decision making. The research shows that in many aspects there are no differences between men and women, but when differences are found, women are generally more ethical than men.[15] By "more ethical," we mean that women seem to be more sensitive to ethical scenarios and less tolerant of unethical actions. In a study on gender and intentions for fraudulent financial reporting, females reported higher intentions to report them than male participants.[16] As more and more women work in managerial positions, these findings may become increasingly significant.

Education is also a significant factor in the ethical decision-making process. The important thing to remember about education is that it does not reflect experience. Work experience is defined as the number of years in a specific job, occupation, and/or industry. Generally, the more education or work experience that a person has, the better he or she is at ethical decision making. The type of education someone has received has little or no effect on ethics. For example, it doesn't matter if you are a business student or a liberal arts student—you are pretty much the same in terms of ethical decision making. Current research, however, shows that students are less ethical than businesspeople, which is likely because businesspeople have been exposed to more ethically challenging situations than students.[17]

Nationality is the legal relationship between a person and the country in which he or she is born. In the twenty-first century, nationality is being redefined by regional economic integration such as the European Union (EU). When European students are asked their nationality, they are less likely to state where they were born than where they currently live. The same thing is happening in the United States, as someone born in Florida who lives in New York might consider him- or herself to be a New Yorker. Research about nationality and ethics appears to be significant in that it affects ethical decision making; however, just how nationality affects ethics is somewhat hard to interpret.[18] Because of cultural differences, it is impossible to state that ethical decision making in an organizational context will differ significantly among individuals of different nationalities. The reality of today is that multinational companies look for businesspeople who can make decisions regardless of nationality. Perhaps in 20 years, nationality will no longer be an issue in that the multinational individual's culture will replace national status as the most significant factor in ethical decision making.

Age is another individual factor that has been researched within business ethics. Several decades ago, we believed that age was positively correlated with ethical decision making. In other words, the older you are, the more ethical you are. However, recent research suggests that there is probably a more complex relationship between ethics and age.[19] We do believe that older employees with more experience have greater knowledge to deal with complex industry-specific ethical issues. Younger managers are far more influenced by organizational culture than are older managers.[20]

Locus of control relates to individual differences in relation to a generalized belief about how one is affected by internal versus external events or reinforcements. In other words, the concept relates to how people view themselves in relation to power. Those who believe in **external control** (that is, externals) see themselves as going with the flow because that is all they can do. They believe that the events in their lives are due to uncontrollable forces. They consider that what they want to achieve depends on luck, chance, and powerful people in their company. In addition, they believe that the probability of being able to control their lives by their own actions and efforts is low. Conversely, those who believe in **internal control** (that is, internals) believe that they control the events in their lives by their own effort and skill, viewing themselves as masters of their destinies and trusting in their capacity to influence their environment.

Current research suggests that we still can't be sure how significant locus of control is in terms of ethical decision making. One study that found a relationship between locus of control and ethical decision making concluded that internals were positively correlated whereas externals were negatively correlated.[21] In other words, those who believe that their fate is in the hands of others were more ethical than those who believed that they formed their own destiny.

Organizational Factors

Although people can and do make individual ethical choices in business situations, no one operates in a vacuum. Indeed, research has established that in the workplace, the organization's values often have greater influence on decisions than a person's own values.[22] Ethical choices in business are most often made jointly, in work groups and committees, or in conversations and discussions with coworkers. Employees approach ethical issues on the basis of what they have learned not only from their own backgrounds, but also from others in the organization. The outcome of this learning process depends on the strength of each person's personal values, the opportunities he or she has to behave unethically, and the exposure he or she has to others who behave ethically or unethically. An alignment between a person's own values and the values of the organization help to create positive work attitudes and organizational outcomes. Research has further demonstrated that congruence in personal and organizational values is related to commitment, satisfaction, motivation, ethics, work stress, and anxiety.[23] Although people outside the organization, such as family members and friends, also influence decision makers, an organization's culture and structure operate through the relationships of its members to influence their ethical decisions.

A **corporate culture** can be defined as a set of values, norms, and artifacts, including ways of solving problems that members (employees) of an organization share. As time passes, stakeholders come to view the company or organization as a living organism with a mind and will of its own. The Walt Disney Co., for example, requires all new employees to take a course in the traditions and history of Disneyland and Walt Disney, including the ethical dimensions of the company. The corporate culture at American Express stresses that employees help customers out of difficult situations whenever possible. This attitude is reinforced through numerous company legends of employees who have gone above and beyond the call of duty to help customers. This strong tradition of customer loyalty might encourage an American Express employee to take unorthodox steps to help a customer who encounters a problem while traveling overseas. Employees learn that they can take some risks in helping customers. Such strong traditions and values have become a driving force in many companies, including Starbucks, IBM, Procter & Gamble, Southwest Airlines, and Hershey Foods.

An important component of corporate, or organizational, culture is the company's ethical culture. Whereas corporate culture involves values and norms that prescribe a wide range of behavior for organizational members, **ethical culture** reflects whether the firm also has an ethical conscience. Ethical culture is a function of many factors, including corporate policies on ethics, top management's leadership on ethical issues, the influence of coworkers, and the opportunity for unethical behavior. Communication is also important in the creation of an effective ethical culture. There is a positive correlation between effective communication and empowerment and the development of an organizational ethical climate.[24] Within the organization as a whole, subclimates can develop within individual departments or work groups, but they are influenced by the strength of the firm's overall ethical culture, as well as the function of the department and the stakeholders it serves.[25]

The more ethical employees perceive an organization's culture to be, the less likely they are to make unethical decisions. Corporate culture and ethical culture are closely associated with the idea that significant others within the organization help determine ethical decisions within that organization. Research also indicates that the ethical values embodied in an organization's culture are positively correlated to employees' commitment to the firm and their sense that they fit into the company. These findings suggest that companies should develop and promote ethical values to enhance employees' experiences in the workplace.[26]

> **"The more ethical employees perceive an organization's culture to be, the less likely they are to make unethical decisions."**

Those who have influence in a work group, including peers, managers, coworkers, and subordinates, are referred to as **significant others**. They help workers on a daily basis with unfamiliar tasks and provide advice and information in both formal and informal ways. Coworkers, for instance, can offer help in the comments they make in discussions over lunch or when the boss is away. Likewise, a manager may provide directives about certain types of activities that employees perform on the job. Indeed, an employee's supervisor can play a central role in helping employees develop and fit in socially in the workplace.[27] Numerous studies conducted over the years confirm that significant others within an organization may have more impact on a worker's decisions on a daily basis than any other factor.[28]

Obedience to authority is another aspect of the influence that significant others can exercise. Obedience to authority helps to explain why many employees resolve business ethics issues by simply following the directives of a superior. In organizations that emphasize respect for superiors, for example, employees may feel that they are expected to carry out orders by a supervisor even if those orders are contrary to the employees' sense of right and wrong. Later, if the employee's decision is judged to have been wrong, he or she is likely to say, "I was only carrying out orders," or "My boss told me to do it this way." In addition, the type of industry and the size of the organization have also been researched and found to be relevant factors, with bigger companies more at risk for unethical activities.[29]

Opportunity

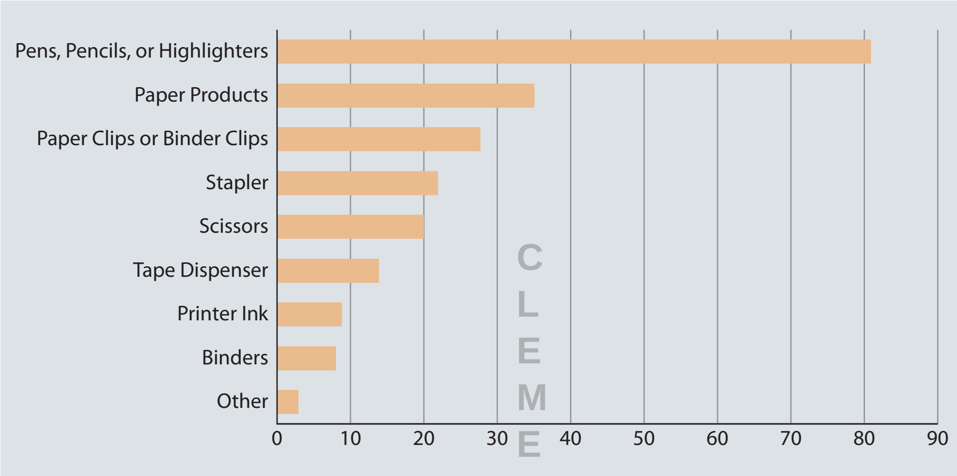
Opportunity describes the conditions in an organization that limit or permit ethical or unethical behavior. Opportunity results from conditions that either provide rewards, whether internal or external, or fail to erect barriers against unethical behavior. Examples of internal rewards include feelings of goodness and personal worth generated by performing altruistic acts. External rewards refer to what an individual expects to receive from others in the social environment in terms of social approval, status, and esteem.

An example of a condition that fails to erect barriers against unethical behavior is a company policy that does not punish employees who accept large gifts from clients. The absence of punishment essentially provides an opportunity for unethical behavior because it allows individuals to engage in such behavior without fear of consequences. The prospect of a reward for unethical behavior can also create an opportunity for questionable decisions. For example, a salesperson who is given public recognition and a large bonus for making a valuable sale that he or she obtained through unethical tactics will probably be motivated to use such tactics again, even if such behavior goes against the salesperson's personal value system. If 10 percent of employees report observing others at the workplace abusing drugs or alcohol and there is a failure to report and respond to this conduct, then the opportunity for others to engage in these activities exists.[30]

Opportunity relates to individuals' **immediate job context**—where they work, whom they work with, and the nature of the work. The immediate job context includes the motivational "carrots and sticks" that superiors use to influence employee behavior. Pay raises, bonuses, and public recognition act as carrots, or positive reinforcements, whereas demotions, firings, reprimands, and pay penalties act as sticks, or negative reinforcements. The U.S. Chamber of Commerce reports that 75 percent of employees steal from their workplaces, and most do so repeatedly.[31] As Figure 5.2 shows, many office supplies, particularly smaller ones, tend to "disappear" from the workplace. Pens, pencils, and highlighters appear to be the most commonly pilfered items, with 81 percent of respondents to an Office Max survey reporting that these supplies go missing most often. If there is no policy against this practice, one concern is that employees will not learn where to draw the line and will get into the habit of taking even more expensive items for personal use.

The opportunities that employees have for unethical behavior in an organization can be eliminated through formal codes, policies, and rules that are adequately enforced by management. For instance, the American Economic Association is considering new ethical guidelines to help academic economists become more transparent about their relationships with hedge funds, banks, and financial institutions. These guidelines are a

FIGURE 5.2 Office Supplies Reported Missing Most Often



Source: "The Truth behind Disappearing Office Supplies," OfficeMax, May 2010, http://multivu.prnewswire.com/mnr/officemax/44541/docs/44541-Report_OfficeMaxWorkplaceUncoveredSurvey.pdf (accessed January 6, 2011).

response to the criticisms levied against academic economists over the consulting services and derivative risk models that they provided to financial companies such as Lehman Brothers—services that have been partially blamed for the U.S. financial crisis.[32] Financial companies—such as banks, savings and loan associations, and securities companies—have also developed elaborate sets of rules and procedures to avoid creating opportunities for individual employees to manipulate or take advantage of their trusted positions. In banks, one such rule requires most employees to take a vacation and stay out of the bank a certain number of days every year so that they cannot be physically present to cover up embezzlement or other diversions of funds. This rule prevents the opportunity for inappropriate conduct.

Despite the existence of rules, misconduct can still occur without proper oversight. In Kabul, Afghanistan, a major scandal in the country's largest bank nearly led to its ruin. Two top executives were implicated in a massive fraud, and later investigations revealed that the bank had made questionable loans that could cost it hundreds of millions of dollars. Failure of the bank could cause the entire banking system in Afghanistan to collapse. How did the bank manage to get away with such a widespread fraud? Investigators believe the bank may have been paying off certain government officials for years to look the other way. If this is true, the corruption would also include some of the country's top leaders.[33] To avoid similar situations, there must be checks and balances that create transparency.

Opportunity also comes from knowledge. A major type of misconduct observed among employees in the workplace is lying to employees, customers, vendors, or the public or withholding needed information from them.[34] A person who has expertise or information about the competition has the opportunity to exploit this knowledge. An individual can be a source of information because he or she is familiar with the organization. Individuals who have been employed by one organization for many years become "gatekeepers" of its culture and often have the opportunity to make decisions related to unwritten traditions and rules. They help socialize newer employees to abide by the rules and norms of the company's internal and external ways of doing business, as well as understanding when the opportunity exists to cross the line. They may function as mentors or supervise managers in training. Like drill sergeants in the army, these trainers mold the new recruits into what the company wants. Their training can contribute to either ethical or unethical conduct.

The opportunity for unethical behavior cannot be eliminated without aggressive enforcement of codes and rules. A national jewelry store chain president explained to us how he dealt with a jewelry buyer in one of his stores who had taken a bribe from a supplier. There was an explicit company policy against taking incentive payments to deal with a specific supplier. When the president of the firm learned about the accepted bribe, he immediately traveled to the office of the buyer in question and terminated his employment. He then traveled to the supplier (manufacturer) selling jewelry to his stores and terminated his relationship with the firm. The message was clear: Taking a bribe is unacceptable for the store's buyers, and salespeople from supplying companies could cost their firm significant sales by offering bribes. This type of policy enforcement illustrates how the opportunity to commit unethical acts can be eliminated or at least significantly reduced.

Business Ethics Evaluations and Intentions

Ethical dilemmas involve problem-solving situations in which the rules governing decisions are often vague or in conflict. The results of an ethical decision are often uncertain; it is not always immediately clear whether or not we have made the right decision. There are no magic formulas, nor is there computer software that ethical dilemmas can be plugged into to get a solution. Even if they mean well, most businesspeople will make ethical mistakes. Therefore there is no substitute for critical thinking and the ability to take responsibility for our own decisions.

An individual's intentions and the final decision regarding what action he or she will take are the last steps in the ethical decision-making process. When the individual's intentions and behavior are inconsistent with his or her ethical judgment, the person may feel guilty. For example, when an advertising account executive is asked by her client to create an advertisement that she perceives as misleading, she has two alternatives: to comply or to refuse. If she refuses, she stands to lose business from that client and possibly her job. Other factors—such as pressure from the client, the need to keep her job to pay her debts and living expenses, and the possibility of a raise if she develops the advertisement successfully—may influence her resolution of this ethical dilemma. Because of these other factors, she may decide to act unethically and develop the advertisement even though she believes it to be inaccurate. Because her actions are inconsistent with her ethical judgment, she will probably feel guilty about her decision.

Guilt or uneasiness is the first sign that an unethical decision has occurred. The next step is changing one's behavior to reduce such feelings. This change can reflect a person's values shifting to fit the decision or the person changing his or her decision type the next time a similar situation occurs. Finally, one can eliminate some of the problematic situational factors by resigning one's position. For those who begin the value shift, the following are the usual justifications that will reduce and finally eliminate guilt:

1. I need the paycheck and can't afford to quit right now.
2. Those around me are doing it, so why shouldn't I? They believe it's okay.
3. If I don't do this, I might not be able to get a good reference from my boss or company when I leave.

4. This is not such a big deal, given the potential benefits.
5. Business is business with a different set of rules.
6. If not me, someone else would do it and get rewarded.

The road to success depends on how the businessperson defines *success*. The success concept drives intentions and behavior in business either implicitly or explicitly. Money, security, family, power, wealth, and personal or group gratification are all types of success measures that people use. The list described is not comprehensive, and in the next chapter, you will understand more about how success can be defined. Another concept that affects behavior is the probability of rewards and punishments, an issue that will be explained further in Chapter 6.

USING THE ETHICAL DECISION-MAKING FRAMEWORK TO IMPROVE ETHICAL DECISIONS

The ethical decision-making framework presented in this chapter cannot tell you if a business decision is ethical or unethical. It bears repeating that it is impossible to tell you what is right or wrong; instead, we are attempting to prepare you to make informed ethical decisions. Although this chapter does not moralize by telling you what to do in a specific situation, it does provide an overview of typical decision-making processes and factors that influence ethical decisions. The framework is not a guide for how to make decisions, but instead is intended to provide you with insights and knowledge about typical ethical decision-making processes in business organizations.

Because it is impossible to agree on normative judgments about what is ethical, business ethics scholars developing descriptive models have instead focused on regularities in decision making and the various phenomena that interact in a dynamic environment to produce predictable behavioral patterns. Furthermore, it is unlikely that an organization's ethical problems will be solved strictly by having a thorough knowledge about how ethical decisions are made. By its very nature, business ethics involves value judgments and collective agreement about acceptable patterns of behavior.

We propose that gaining an understanding of typical ethical decision making in business organizations will reveal several ways that such decision making could be improved. With more knowledge about how the decision process works, you will be better prepared to analyze critical ethical dilemmas and to provide ethical leadership regardless of your role in the organization. One important conclusion that should be taken from our framework is that ethical decision making within an organization does not rely strictly on the personal values and morals of individuals. Knowledge of moral philosophies or values must be balanced with business knowledge and an understanding of the complexities of the dilemma requiring a decision. For example, a manager who embraces honesty, fairness, and equity has to understand the diverse risks associated with a complex financial instrument such as options or derivatives. Business competence must exist, along with personal accountability, in ethical decisions. Organizations take on a culture of their own, with managers and coworkers exerting a significant influence on ethical decisions. While formal codes, rules, and compliance are essential in organizations, an organization built on informal relationships is more likely to develop a high integrity corporate culture.[35]

THE ROLE OF LEADERSHIP IN A CORPORATE CULTURE

Top managers provide a blueprint for what a firm's corporate culture should be.[36] If these leaders fail to express desired behaviors and goals, a corporate culture will evolve on its own but will still reflect the values and norms of the company. **Leadership,** the ability or authority to guide and direct others toward achievement of a goal, has a significant impact on ethical decision making because leaders have the power to motivate others and enforce the organization's norms and policies as well as their own viewpoints. Leaders are key to influencing an organization's corporate culture and ethical posture. Research suggests that ethical leadership has a positive correlation to follower organizational citizenship and a negative correlation to deviance. In other words, ethical business leaders are more likely to have employees that follow their example and less likely to have deviants that create trouble in the company.[37]

Although we often think of CEOs and other top managers as the most important leaders in an organization, the corporate governance reforms discussed in Chapter 4 make it clear that a firm's board of directors is also an important leadership component. Indeed, directors have a legal obligation to manage companies "for the best interests of the corporation." To determine what is in the best interest of the firm, directors can consider the effects that a decision may have not only on shareholders and employees but also on other important stakeholders.[38] Therefore, when we discuss leadership, we include corporate directors as well as top executives.

In the long run, if stakeholders are not reasonably satisfied with a company's leader, he or she will not retain a leadership position. A leader must not only have his or her followers' respect but must also provide a standard of ethical conduct. The former chairman of the Korean electronics giant Samsung Group, Lee Kun-hee, resigned in disgrace after 20 years on the Samsung board after being accused of evading $128 million in taxes. His son and heir to the company, Lee Jae-yong, also resigned from the board. This was only the last in a long string of corruption charges against Lee. He was also convicted of bribery 12 years ago. Since his resignation, the company has sought to improve its image.[40] Table 5.1 summarizes the steps executives should take to demonstrate that they understand the importance of ethics in doing business.

DEBATE ISSUE TAKE A STAND

Examining Warren Buffett as an Effective Leader

Warren Buffett has been the leader of Berkshire Hathaway, Inc., for more than 40 years. Buffett has been viewed as an ethical leader who emphasizes integrity in his manager choices. His conglomerate is one of the largest companies in the United States. Buffett relies on the character of the CEOs of the various companies in his conglomerate, and in many cases, he may only have a few conversations with the CEO over the course of a year. His trust in his associates was undermined when David Sokol, the leading contender to succeed him, resigned after revelations that he had purchased $10 million in shares of a chemical maker a week before recommending the purchase of the company to Buffett. This broke the company's insider trading rules and duty of candor. While Sokol's trading may fall in a gray area of the law, there are certainly questions about Sokol's disclosures.[39]

1. Warren Buffett is correct in trusting those around him to have high integrity and the ability to make ethical decisions based on their character.
2. Warren Buffett needs to focus more on organizational ethical codes and compliance and less on the character of the manager that he puts in charge of the company.

TABLE 5.1 The Managerial Role in Developing Ethics Program Leadership

1. Obtain organizational commitment from the board of directors and top management
2. Develop organizational resources for ethics initiatives
3. Determine ethical risks and develop contingency plans
4. Develop an effective ethics program to address risks and maintain compliance with ethical standards
5. Provide oversight for implementation and audits of ethical programs
6. Communicate with stakeholders to establish shared commitment and values for ethical conduct

LEADERSHIP STYLES INFLUENCE ETHICAL DECISIONS

Leadership styles influence many aspects of organizational behavior, including employees' acceptance of and adherence to organizational norms and values. Styles that focus on building strong organizational values among employees contribute to shared standards of conduct. They also influence the organization's transmission and monitoring of values, norms, and codes of ethics.[41] In short, the leadership style of an organization influences how its employees act. The challenge for leaders is in gaining the trust and commitment of organizational members, which is essential if organizational leaders are to steer their companies toward success. Those leaders who are recognized as trustworthy are more likely to be perceived as ethical stewards.[42] Studying a firm's leadership styles and attitudes can also help to pinpoint where future ethical issues may arise. Even for actions that may be against the law, employees often look to their organizational leaders to determine how to respond.

Ethical leadership by a CEO requires an understanding of his or her firm's vision and values, as well as of the challenges of responsibility and the risks involved in achieving organizational objectives. Lapses in ethical leadership can occur even in people who possess strong ethical character, especially if they view the organization's ethical culture as being outside the realm of decision making that exists in the home, family, and community. This phenomenon has been observed in countless cases of so-called good community citizens engaging in unethical business activities. For example, Robin Szeliga, former CFO of Qwest, who pleaded guilty for insider trading, was an excellent community leader, even serving on a business college advisory board.

Ethical leaders need both knowledge and experience to make decisions. Strong ethical leaders must have the right kind of moral integrity. Such integrity must be transparent; in other words, they must "do in private as if it were always public." This type of integrity relates to values and is discussed in later chapters. Ethical leaders must be proactive and ready to leave the organization if its corporate governance system makes it impossible to make the right choice. Such right choices are complex by definition. The ethical leader must balance current issues with potential future issues. Such a person must be concerned with shareholders as well as with the lowest-paid employees. Experience shows that no leader can always be right or judged ethical by stakeholders in every case. The acknowledgment of this fact may be perceived as a weakness, but in reality it supports integrity and increases the debate exchange of views on ethics and openness.

Six leadership styles that are based on emotional intelligence—the ability to manage ourselves and our relationships effectively—have been identified by Daniel Goleman.[43]

1. The coercive leader demands instantaneous obedience and focuses on achievement, initiative, and self-control. Although this style can be very effective during times of crisis or during a turnaround, it otherwise creates a negative climate for organizational performance.
2. The authoritative leader—considered to be one of the most effective styles—inspires employees to follow a vision, facilitates change, and creates a strongly positive performance climate.
3. The affiliative leader values people, their emotions, and their needs and relies on friendship and trust to promote flexibility, innovation, and risk taking.
4. The democratic leader relies on participation and teamwork to reach collaborative decisions. This style focuses on communication and creates a positive climate for achieving results.
5. The pacesetting leader can create a negative climate because of the high standards that he or she sets. This style works best for attaining quick results from highly motivated individuals who value achievement and take the initiative.
6. The coaching leader builds a positive climate by developing skills to foster long-term success, delegating responsibility, and skillfully issuing challenging assignments.

The most successful leaders do not rely on one style but alter their techniques based on the characteristics of the situation. Different styles can be effective in developing an ethical culture depending on the leader's assessment of risks and the desire to achieve a positive climate for organizational performance.

Another way to consider leadership styles is to classify them as transactional or transformational. **Transactional leaders** attempt to create employee satisfaction through negotiating, or "bartering," for desired behaviors or levels of performance. **Transformational leaders** strive to raise employees' level of commitment and to foster trust and motivation.[44] Both transformational and transactional leaders can positively influence the corporate culture.

Transformational leaders communicate a sense of mission, stimulate new ways of thinking, and enhance as well as generate new learning experiences. They consider employee needs and aspirations in conjunction with organizational needs. They also build commitment and respect for values that promote effective responses to ethical issues. Thus, transformational leaders strive to promote activities and behavior through a shared vision and common learning experience. As a result, they have a stronger influence on coworker support for ethical decisions and building an ethical culture than do transactional leaders. Transformational ethical leadership is best suited for organizations that have higher levels of ethical commitment among employees and strong stakeholder support for an ethical culture. A number of industry trade associations—including the American Institute of Certified Public Accountants, Defense Industry Initiative on Business Ethics and Conduct, Ethics and Compliance Officer Association, and Mortgage Bankers Association of America—are helping companies provide transformational leadership.[45]

In contrast, transactional leaders focus on ensuring that required conduct and procedures are implemented. Their negotiations to achieve desired outcomes result in a dynamic relationship with subordinates in which reactions, conflict, and crisis influence the relationship more than ethical concerns. Transactional leaders produce employees who achieve a negotiated level of performance, including compliance with ethical and legal standards. As long as employees and leaders both find this exchange mutually rewarding, the relationship is likely to be successful. However, transactional leadership is best suited for rapidly changing situations, including those that require responses to ethical problems or issues. For example, when Eric Pillmore took over as senior vice president of corporate governance at Tyco after a major scandal involving CEO Dennis Kozlowski, the company needed transitional leadership. To turn the company around, many ethics and corporate governance decisions needed to be made quickly. The company also needed cross-functional leadership, improved accountability, and empowered leaders to improve corporate culture. Pillmore helped install a new ethics program that changed leadership policies and allowed him direct communications with the board in order to help implement the leadership transition.[46]

HABITS OF STRONG ETHICAL LEADERS

Archie Carroll, a University of Georgia business professor, crafted “7 Habits of Highly Moral Leaders” based on the idea of Stephen Covey’s *The 7 Habits of Highly Effective People.*[47] We have adapted Carroll’s “7 Habits of Highly Moral Leaders”[48] to create our own “Seven Habits of Strong Ethical Leaders” (Table 5.2). In particular, we believe that ethical leadership is based on holistic thinking that embraces the complex and challenging issues that companies face on a daily basis. Ethical leaders need both knowledge and experience to make the right decisions. Strong ethical leaders have both the courage and the most complete information to make decisions that will be best in the long run. Strong ethical leaders must stick to their principles and, if necessary, be ready to leave the organization if its corporate governance system is so flawed that it is impossible to make the right choice.

Many corporate founders—such as Sam Walton, Bill Gates, Milton Hershey, Michael Dell, Steve Jobs, and Ben Cohen and Jerry Greenfield—left their ethical stamp on their companies. Their conduct set the tone, making them role models for desired conduct in the early growth of their respective corporations. In the case of Milton Hershey, his legacy endures, and Hershey Foods continues to be a role model for ethical corporate culture. In the case of Sam Walton, Walmart embarked on a course of rapid growth after his death and became involved in numerous conflicts with various stakeholder groups, especially

TABLE 5.2 Seven Habits of Strong Ethical Leaders

1. Ethical leaders have strong personal character.
2. Ethical leaders have a passion to do right.
3. Ethical leaders are proactive.
4. Ethical leaders consider stakeholders’ interests.
5. Ethical leaders are role models for the organization’s values.
6. Ethical leaders are transparent and actively involved in organizational decision making.
7. Ethical leaders are competent managers who take a holistic view of the firm’s ethical culture.

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employees, regulators, competitors, and communities. Despite the ethical foundation left by Sam Walton, Walmart, like most large corporations, deals with hundreds of reported ethical lapses every month.[49]

Ethical Leaders Have Strong Personal Character

There is general agreement that ethical leadership is highly unlikely without a strong personal character. The question is how to teach or develop a moral person in a corporate environment. Thomas I. White, a leading authority on character development, believes the focus should be on developing "ethical reasoning" rather than on being a "moral person." According to White, the ability to resolve the complex ethical dilemmas encountered in a corporate culture requires intellectual skills.[50] For example, when Lawrence S. Benjamin took over as president of U.S. Food Service after a major ethical disaster, he initiated an ethics and compliance program to promote transparency and to teach employees how to make difficult ethical choices. A fundamental problem in traditional character development is that specific values and virtues are used to teach a belief or philosophy. This approach may be inappropriate for a business environment where cultural diversity and privacy must be respected. On the other hand, teaching individuals who want to do the right thing regarding corporate values and ethical codes, and equipping these individuals with the intellectual skills to address the complexities of ethical issues, is the correct approach.

Ethical Leaders Have a Passion to Do Right

The passion to do right is the glue that holds ethical concepts together. Some leaders develop this trait early in life, whereas others develop it over time through experience, reason, or spiritual growth. They often cite familiar arguments for doing right—to keep society from disintegrating, to alleviate human suffering, to advance human prosperity, to resolve conflicts of interest fairly and logically, to praise the good and punish the guilty, or just because something "is the right thing to do."[51] Having a passion to do right indicates a personal characteristic of recognizing the importance of ethical behavior and having the willingness to face challenges and make tough choices. Courageous leadership requires making and defending the right decision. Consider the crisis faced by Harry Kraemer, the CEO of Baxter International, after 53 dialysis patients died during treatment. "We have this situation," he said. "The financial people will assess the potential financial impact. The legal people will do the same. But at the end of the day, if we think it's a problem that a Baxter product was involved in the deaths of 53 people, then those other issues become pretty easy. If we don't do the right thing, then we won't be around to address those other issues."[52]

Ethical Leaders Are Proactive

Ethical leaders do not hang around waiting for ethical problems to arise. They anticipate, plan, and act proactively to avoid potential ethical crises.[53] One way to be proactive is to take a leadership role in developing effective programs that provide employees with guidance and support for making more ethical choices, even in the face of considerable pressure to do otherwise. Ethical leaders who are proactive understand social needs and apply or even develop the best practices of ethical leadership that exist in their industry. One of *Fortune* magazine's "Best Companies to Work for" in 2011 was DreamWorks Animation, which takes a proactive stance toward seeking top talent. CEO Jeffrey Katzenberg calls job candidates personally to encourage them to join the company. Additionally, DreamWorks has adopted a culture that supports employee contributions and creativity. Any employee at DreamWorks can pitch a movie idea to the top executives, and the company even sponsors workshops to help employees learn how to do so.[54] Such strong leadership is crucial in maintaining impressive credentials over the long term.

Ethical Leaders Consider Stakeholders' Interests

Ethical leaders consider the interests of and implications for all stakeholders, not just those that have an economic impact on the firm. This level of oversight requires acknowledging and monitoring the concerns of all legitimate stakeholders; actively communicating and cooperating with them; employing processes that are respectful of them; recognizing interdependencies among them; avoiding activities that would harm their human rights: and recognizing the potential conflicts between leaders' "own role as corporate stakeholders and their legal and moral responsibilities for the interests of other stakeholders."[55]

Ethical leaders have a responsibility to balance stakeholder interests to ensure that the organization maximizes its role as a responsible corporate citizen. For instance, while Waste Management is the largest waste management provider in the United States, it is also the nation's largest recycler. Its environmental initiatives have earned it a spot among *Ethisphere*'s 2010 World's Most Ethical Companies. Although Waste Management is known for its green trucks hauling trash to the dump, CEO David Steiner is taking the company in a more ecofriendly direction. With its tagline "Think Green," the company has invested in about 25 businesses to capture and reuse the energy and materials found in waste. Waste Management's LampTracker business is also the largest recycler of compact fluorescent light bulbs in the nation. Although recycling and zero waste practices represent a threat to traditional waste management services, Waste Management is taking a long-term stakeholder perspective with the belief that such practices are the future of the industry.[56]

Ethical Leaders Are Role Models for the Organization's Values

If leaders do not actively serve as role models for the organization's core values, then those values become nothing more than lip service. According to behavioral scientist Brent Smith, as role models, leaders are the primary influence on individual ethical behavior. Leaders whose decisions and actions are contrary to the firm's values send a signal that the firm's values are trivial or irrelevant.[57] Firms such as Countrywide Financial articulated core values that were nothing more than window dressing. On the other hand, when leaders model the firm's core values at every turn, the results can be powerful.

Consider Whole Foods, the world's largest organic and natural grocer. Ever since its conception in Austin, Texas, in 1980, Whole Foods has demonstrated a commitment to social responsibility and strong core values (see Table 5.3). In addition to providing consumers with fresh, healthy foods, Whole Foods cares for its employees by creating a transparent and friendly work environment. The company encourages a sense of teamwork through imposing a salary cap for top executives. The company also works to support growers and the environment through sourcing from sustainable growers and supporting such efforts as recycling and reducing energy whenever possible. Whole Foods donates a minimum of

TABLE 5.3 Whole Food's Core Values

• Selling the highest quality natural and organic products
• Satisfying and delighting our customers
• Supporting team member happiness and excellence
• Creating wealth through profits and growth
• Caring about our communities and our environment
• Creating ongoing win-win partnerships with our suppliers
• Promoting the health of our stakeholders through healthy eating education

Source: "Our Core Values," Whole Foods Markets, www.wholefoodsmarket.com/company/corevalues.php (accessed March 1, 2011).

5 percent of profits to local communities in which it operates. Many people are drawn to Whole Foods because of its high quality standards, educational initiatives, and close relationships with suppliers.[58]

Ethical Leaders Are Transparent and Actively Involved in Organizational Decision Making

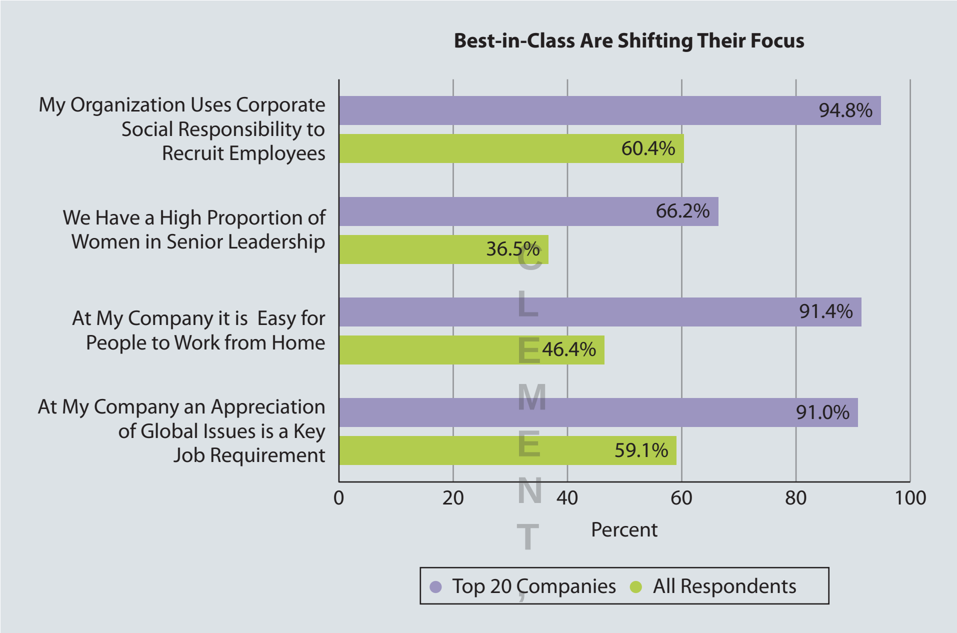
Transparency fosters openness, the freedom to express ideas, and the ability to question conduct. It also encourages stakeholders to learn about and comment on what a firm is doing. Transparent leaders will not be effective unless they are personally involved in the key decisions that have ethical ramifications. Transformational leaders are collaborative, which opens the door for transparency through interpersonal exchange. Earlier we noted that transformational leaders instill commitment and respect for values that provide guidance on how to deal with ethical issues. Herb Baum, former CEO of the Dial Corp., says, "In today's business environment, if you're a leader—or want to be—and you aren't contributing to a values-based business culture that encourages your entire organization to operate with integrity, your company is as vulnerable as a baby chick in a pit of rattlesnakes." Baum's three remarkably simple principles of transparency are to (1) tell the whole truth, (2) build a values-based culture, and (3) hire "people people."[59]

Ethical Leaders Are Competent Managers Who Take a Holistic View of the Firm's Ethical Culture

Ethical leaders can see a holistic view of their organization and therefore view ethics as a strategic component of decision making, much like marketing, information systems, production, and so on. For instance, Bill Marriott of Marriott Hotels was selected as one of the 100 Most Influential People in Business Ethics by the Ethisphere Institute in 2010. Marriott has demonstrated a commitment to social responsibility by guiding his company toward more ethical sourcing practices and working toward equal rights worldwide.[60]

As the business environment constantly changes, effective leaders must learn to change their strategies accordingly. Figure 5.3 shows four important trends at companies with strong leadership. Note that many of these trends, such as working from home, have only taken on significant importance in the last few years. Top leadership must have a clear

FIGURE 5.3 Leadership Is More Challenging in Today's Business Environment



Source: Bloomberg BusinessWeek/Hay Group 2009 Best Companies for Leadership Survey. Used with permission of Bloomberg L.P. Copyright© 2011. All rights reserved.

understanding of key social and global concerns if they hope to lead their companies to success. Leadership continues to be one of the most important drivers of ethical conduct in organizations.

UNDERSTANDING ETHICAL DECISION MAKING AND THE ROLE OF LEADERSHIP

Our ethical decision-making framework demonstrates the many factors that influence ethical decisions. Ethical issue intensity, individual factors, organizational factors, and opportunity result in business ethics evaluations and decisions. An organizational ethical culture is shaped by effective leadership. Without top level support for ethical behavior, the opportunity for employees to engage in their own personal approaches to ethical decision making will evolve. An ethical corporate culture needs shared values along with proper oversight to monitor the complex ethical decisions being made by employees. It requires the establishment of a strong ethics program to educate and develop compliance policies. Consider Kathleen Edmond, the Chief Ethics Officer at Best Buy. Edmond, a continual winner of *Ethisphere*'s Most Influential People in Business Ethics list, has created a culture of transparency at Best Buy. Edmond created a blog that is available to the public that discusses ethics issues, including instances of misconduct at Best Buy. Such transparency keeps the company accountable to its stakeholders. Consequently, Best Buy has also earned a spot as one of *Ethisphere*'s World's Most Ethical Companies.[61]

On the other hand, some companies that have a strong reputation for ethical leadership sometimes fail to maintain their ethical culture. For example, Johnson and Johnson's quick action during the Tylenol murders secured its reputation for putting customer safety first. However, Johnson and Johnson has experienced several quality control issues that have put its reputation as an ethical company into jeopardy. The company underwent 50 product recalls in 15 months due to product contamination or defects. The government has accused it of not acting quickly enough in recalling products. A unit of Johnson and Johnson, DePuy Orthopedics, also recalled two types of replacement hips that had been causing pain in patients, but 93,000 of these devices had already been implanted. This has led to a string of lawsuits as well as increased government scrutiny of Johnson and Johnson plants.[62]

Finally, the more you know about ethical decision making in business, the more likely you will be to make good decisions. There are many challenges in organizations that are beyond the control of any one individual. On the other hand, as you move to higher levels of the organization, there is the opportunity for ethical leadership to become a role model for good ethics. The descriptive framework of ethical decision making in this chapter should provide many insights into the relationships that can contribute to an ethical culture.

SUMMARY

The key components of the ethical decision-making framework include ethical issue intensity, individual factors, organizational factors, and opportunity. These factors are interrelated and influence business ethics evaluations and intentions, which result in ethical or unethical behavior.

The first step in ethical decision making is to recognize that an ethical issue requires an individual or work group to choose among several actions that will ultimately be evaluated as ethical or unethical by various stakeholders. Ethical issue intensity is the perceived relevance or importance of an ethical issue to an individual or work group. It reflects the ethical sensitivity of the individual or work group that triggers the ethical decision-making process. Other factors in our ethical decision-making framework influence this sensitivity, and therefore different individuals often perceive ethical issues differently.

Individual factors such as gender, education, nationality, age, and locus of control can affect the ethical decision-making process, with some factors being more important than others. Organizational factors such as an organization's values often have greater influence on an individual's decisions than that person's own values. In addition, decisions in business are most often made jointly, in work groups and committees, or in conversations and discussions with coworkers. Corporate cultures and structures operate through the ability of individual relationships among the organization's members to influence those members' ethical decisions. A corporate culture can be defined as a set of values, beliefs, goals, norms, and ways of solving problems that members (employees) of an organization share. Corporate culture involves norms that prescribe a wide range of behavior for the organization's members. The ethical culture of an organization indicates whether it has an ethical conscience. Significant others—including peers, managers, coworkers, and subordinates—who influence the work group have more daily impact on an employee's decisions than any other factor in the decision-making framework. Obedience to authority may explain why many business ethics issues are resolved simply by following the directives of a superior.

Ethical opportunity results from conditions that either provide rewards, whether internal or external, or limit barriers to ethical or unethical behavior. Included in opportunity is a person's immediate job context, which includes the motivational techniques superiors use to influence employee behavior. The opportunity employees have for unethical behavior in an organization can be eliminated through formal codes, policies, and rules that are adequately enforced by management.

The ethical decision-making framework is not a guide for making decisions. It is intended to provide insights and knowledge about typical ethical decision-making processes in business organizations. Ethical decision making within organizations does not rely strictly on the personal values and morals of employees. Organizations have cultures of their own, which when combined with corporate governance mechanisms may significantly influence business ethics.

Leadership styles and habits promote an organizational ethical climate. Leadership styles include coercive, authoritative, affiliative, democratic, and coaching elements. Transactional leaders negotiate or barter with employees. Transformational leaders strive for a shared vision and common learning experience. Strong ethical leaders have a strong personal character, have a passion to do the right thing, are proactive, focus on stakeholders' interests, are role models for the organization's values, make transparent decisions, and take a holistic view of the firm's ethical culture.

IMPORTANT TERMS FOR REVIEW

ethical issue intensity
education
external control
ethical culture
opportunity
transactional leader
moral intensity
nationality
internal control
significant other
immediate job context
transformational leader
gender
locus of control
corporate culture
obedience to authority
leadership

RESOLVING ETHICAL BUSINESS CHALLENGES*

Peter had been a human resource (HR) manager for 18 years and vice president for two more years at Zyedego Corporation, a small company in New Orleans. In the last decade, there have been many changes to what potential/actual employees can be asked and what constitutes fair and equitable treatment. As a result, Peter was having trouble reconciling his individual values with what could be best for the company. Some of the human resource problems that Peter was facing also had legal implications that he would have to consider.

The first issue began with Hurricane Katrina. In its wake, Zyedego employees worked around the clock to get the company up and running again. The company called all employees (if they could locate them) to get them to return to work. Gwyn, one of Peter's HR managers, was planning on asking Dana Gonzales to return to work but found out that Dana was pregnant. Because of the rough condition of the workplace, Gwyn was concerned for Dana's safety. Due to the extreme cutbacks the company was facing after the hurricane, Gwyn felt that the company could not afford to pay Dana for maternity leave or handle any interruptions in productivity that Dana's pregnancy could impose. In addition, Gwyn had some concerns over Dana's citizenship because her passport appeared to be questionable. The flooding had destroyed the original documents, and although Gwyn requested new documents, Dana was slow in providing them. Gwyn asked some difficult questions about Dana's citizenship, and Dana stated that if she did not return to work soon, she would go to a competitor and expected the company to pay severance of two weeks' wages for the time she was out of work during the hurricane.

Another human resource issue involved the hiring of truck drivers. Zyedego hired many truck drivers and routinely requested driving records as part of the preemployment process. Several of the potential new hires had past DWI records. All stated that they would never do it again, had maintained a clean record for at least five years, and understood the consequences of another infraction. Gwyn hired some drivers with infractions to secure the necessary number of drivers needed for the company. However, Gwyn had some concerns over whether she was exposing the company to unnecessary risk because of the increased potential for accidents or repeat DWI violations. Gwyn needed guidance from Peter on the wisdom of continuing these hiring practices.

However, Zyedego had even deeper problems, which was what primarily concerned Peter. The problem really started when Peter was still an HR manager, and involves one family. Guy Martin started working for Zyedego 20 years ago. At the time he was married with two children and had a mortgage. A little over a year ago, Guy separated from his wife, and they eventually divorced, only to remarry six months later. When Guy was hired, Peter had made sure that Guy's son, who has asthma, would be covered by health insurance. Peter also helped out the family several times when money was tight, and provided Guy with overtime work. But tragedy struck the Martins when Guy was killed in the hurricane. Police and rescue workers hunted for his body, but it was never found. Because Martha, Guy's wife, was a stay-at-home mother, their only income had been from Zyedego. The company's death benefits would provide only 50 percent of the deceased's pension for a surviving spouse. Also, because the body had not been found, there was the legal question of death. Usually it takes seven years before one can claim any type of insurance or death-benefit payments, as well as medical insurance, for the family. Even with Social Security benefits, Martha would probably lose the house and could be forced to seek employment.

Zyedego had sustained substantial losses since the hurricane. Insurance companies were extremely slow concerning payments to all the small businesses, arguing about wind versus water damage. Impeding the process of obtaining benefits was the lack of many documents that had been destroyed in the storm.

The trouble really began for Peter when he met with the insurance company about medical reimbursements, death benefits, and pension plans. Darrell Lambert was the chief adjuster for Zyedego's insurance and pension provider.

"Here's another case that we will not cover," said Darrell as he flipped the file to Peter. "We can't help the Martins for a variety of reasons. There is no body, which means no payment until after a judge declares him legally dead. That will take at least a year. While that is being settled, Mrs. Martin and her family will not be eligible for medical coverage unless Zyedego is going to pay their full amount. Finally, and I know this may sound heartless, but Mrs. Martin will only get a maximum of half of Mr. Martin's pension."

"But he was killed on the job!" exclaimed Peter.

"Did you require him to work that day? Did he punch in or out? Is there any record that he was called in from Zyedego to help? The answer is no to all of the above. He helped because he felt obligated to Zyedego. But I am not Zyedego, and I do not have any obligation to the Martins," Darrell said with a smile.

"Peter," continued Darrell, "I know that Zyedego is under intense financial pressure, but we are too. You have approximately 100 families that we will have to pay something to. You and I can spend the next 12 months going over every case, bit by bit, item by item, but if that's what you want, Zyedego will go into bankruptcy. We don't want that to happen. But we also are not going to pay for everything that you claim you are due. Our lawyers will stall the system until you go broke, and your 100 families will get nothing. Well, maybe something in five to seven years. What I am proposing is a way for you to stay in business and for my company to reduce its financial payouts. Remember, we have hundreds of small businesses like you to deal with."

Darrell then calmly said, "My proposal is that you look over these files and reduce your total reimbursements to us by 40 percent. To help you out, I'll start with this case [Martin's]. You decide whether we pay out 40 percent or nothing. Tomorrow at 9:00 A.M., I want you to have 25 cases, including this one, pared down by 40 percent. If not, well, I'm sure my superiors have informed your superiors about this arrangement by now. You should be getting a call within the hour. So, I'll see you here at 9:00," and Darrell walked out the door.

Several hours later, Peter received a phone call from upper management about the deal he was to implement to save the company.

QUESTIONS | EXERCISES

1. What are the legal and ethical risks associated with the decision about hiring truck drivers at Zyedego?
2. What should Peter recommend to Gwyn about Dana's case?
3. Do you think Peter is too emotionally attached to the Martin case to make an objective decision?

*This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.

CHECK YOUR EQ

Check your EQ, or Ethics Quotient, by completing the following. Assess your performance to evaluate your overall understanding of the chapter material.

1.	The first step in ethical decision making is to understand the individual factors that influence the process.	**Yes**	**No**
2.	"Opportunity" describes the conditions within an organization that limit or permit ethical or unethical behavior.	**Yes**	**No**
3.	Transactional leaders negotiate compliance and ethics.	**Yes**	**No**
4.	The most significant influence on ethical behavior in an organization is the opportunity to engage in (un)ethical behavior.	**Yes**	**No**
5.	Obedience to authority relates to the influence of corporate culture.	**Yes**	**No**

ANSWERS **1. No.** The first step is to become more aware that an ethical issue exists and to consider its relevance to the individual or work group. **2. Yes.** Opportunity results from conditions that provide rewards or fail to erect barriers against unethical behavior. **3. Yes.** Transactional leaders barter or negotiate with employees. **4. No.** Significant others have more impact on ethical decisions within an organization. **5. No.** Obedience to authority relates to the influence of significant others and supervisors.

CHAPTER 6

INDIVIDUAL FACTORS: MORAL PHILOSOPHIES AND VALUES

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CHAPTER OBJECTIVES

- To understand how moral philosophies and values influence individual and group ethical decision making in business
- To compare and contrast the teleological, deontological, virtue, and justice perspectives of moral philosophy
- To discuss the impact of philosophies on business ethics
- To recognize the stages of cognitive moral development and its shortcomings
- To introduce white-collar crime as it relates to moral philosophies, values, and corporate culture

CHAPTER OUTLINE

Moral Philosophy Defined

Moral Philosophies

Instrumental and Intrinsic Goodness

Teleology

Deontology

Relativist Perspective

Virtue Ethics

Justice

Applying Moral Philosophy to Ethical Decision Making

Cognitive Moral Development

White-Collar Crime

Individual Factors in Business Ethics

AN ETHICAL DILEMMA*

One of the problems that Lael Matthews has had to deal with in trying to climb the corporate ladder is the glass ceiling faced by minorities and women. And now, in her current position, she must decide which of three managers to promote, a decision that, as her superior has informed her, could have serious repercussions for her future. The following people are the candidates.

Liz is a 34-year-old African American, divorced with one child, who graduated in the lower half of her college class at Northwest State. She has been with the company for four years and in the industry for eight years, with mediocre performance ratings but a high energy level. She has had some difficulties in managing her staff. Her child has had various medical problems, so higher pay would be helpful. If promoted, Liz would be the first African American female manager at this level. Although Lael has known Liz only a short time, they seem to have hit it off; in fact, Lael once babysat Liz's daughter, Janeen, in an emergency. One downside to promoting Liz might be a perception that Lael is playing favorites.

Roy is a 57-year-old Caucasian, married with three children, who graduated from a private university in the top half of his class. Roy has been with the company for 20 years and in the industry for 30, and he has always been a steady performer, with mostly average ratings. Roy has been passed over for promotions in the past because of his refusal to relocate, but that is no longer a problem. Roy's energy level is average to low; however, he has produced many of the company's top sales performers. This promotion would be his last before retirement, and many in the company feel he has earned it. In fact, one senior manager stopped Lael in the hall and said, "You know, Lael, Roy has been with us for a long time. He has done many good things for the company, sacrificing not only himself but also his family. I really hope that you can see your way to promoting him. It would be a favor to me that I wouldn't forget."

Quang Yeh, a single, 27-year-old Asian American, graduated from State University in the top 3 percent of her class and has been with the company for three years. She is known for putting in 60-hour weeks and for her meticulous management style, which has generated some criticism from her sales staff. The last area that she managed showed record increases, despite the loss of some older accounts who, for some reason, did not like dealing with Quang. Moreover, Quang sued her previous employer for discrimination and won. Lael had heard that Quang was intense and that nothing would stop her from reaching her goals. As Lael was going over some of her notes, another upper-management individual came to her office and said, "You know, Lael, Quang is engaged to my son. I've looked over her personnel files, and she looks very good. She looks like a rising star, which would indicate that she should be promoted as quickly as possible. I realize that you're not in my division, but the way people get transferred, you never know. I would really like to see Quang get this promotion."

As she was considering the choices, Lael's immediate supervisor came to her to talk about Liz. "You know, Lael, Liz is one of a very few people in the company who is both an African American woman and qualified for this position. I've been going over the company's hiring and promotion figures, and it would be very advantageous for me personally and for the company to promote her. I've also spoken to public relations, and they believe that this would be a tremendous boost for the company."

As Lael pondered her decision, she mentally went through each candidate's records and found that each had advantages and disadvantages. While she was considering her problem, the phone rang. It was Liz, sounding frantic. "Lael, I'm sorry to disturb you at this late hour, but I need you to come to the hospital. Janeen has been in an accident, and I don't know who to turn to." When Lael got to the hospital, she found that Janeen's injuries were fairly serious and that Liz would have to miss some work to help with the recuperation process. Lael also realized that this accident would create a financial problem for Liz, which a promotion could help solve.

The next day seemed very long and was punctuated by the announcement that Roy's son was getting married to the vice president's daughter. The wedding would be in June, and it sounded as though it would be a company affair. By 4:30 that afternoon, Lael had gone through four aspirins and two antacids. Her decision was due in two days. What should she do?

QUESTIONS | EXERCISES

1. Discuss the advantages and disadvantages of each candidate.
2. What are the ethical and legal considerations for Lael?
3. Identify the pressures that have made her promotion decision an ethical and legal issue.
4. Discuss the implications of each decision that Lael could make.

*This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.

Most discussions of business ethics address the role of the individual in ethical decision making, and the model we provided in Chapter 5 identifies individual moral perspectives as a central component of ethical decision making. In this chapter, we provide a detailed description and analysis of how individuals' backgrounds and philosophies influence their decisions. People often use their individual moral philosophies to justify decisions or explain their actions. To understand how people make ethical decisions, it is useful to have a grasp of the major types of moral philosophies. In this chapter, we discuss the stages of cognitive development as they relate to these moral philosophies. We also examine white-collar crime as it relates to moral philosophies and personal values.

MORAL PHILOSOPHY DEFINED

When people talk about philosophy, they are usually referring to the general system of values by which they live. **Moral philosophy,** on the other hand, refers to the specific principles or rules that people use to decide what is right and wrong. It is important to understand the distinction between moral philosophies and business ethics. Moral philosophies are person-specific, while business ethics is based on decisions made by groups or when carrying out tasks to meet business objectives. A moral philosophy is a person's principles and values. In the context of business, ethics refers to what the group, firm, or strategic business unit (SBU) defines as right or wrong actions that pertain to its business operations and the objective of profits, earnings per share, or some other financial measure of success. For example, a production manager may be guided by a general philosophy of management that emphasizes encouraging workers to get to know as much as possible about the product that they are manufacturing. However, the manager's moral philosophy comes into play when he must make decisions such as whether to notify employees in advance of upcoming layoffs. Although workers would prefer advance warning, giving it might adversely affect the quality and quantity of production. Such decisions require a person to evaluate the "rightness," or morality, of choices in terms of his or her own principles and values.

Moral philosophies present guidelines for "determining how conflicts in human interests are to be settled and for optimizing mutual benefit of people living together in groups."[1] They direct businesspeople as they formulate business strategies and resolve specific ethical issues. However, there is no single moral philosophy that everyone accepts. Moral philosophies are often used to defend a particular type of economic system and individuals' behavior within these systems.

Adam Smith is considered the father of free-market capitalism. He was a professor of logic and moral philosophy and wrote the treatise "The Theory of Moral Sentiments" (1759) and the book *Inquiry into the Nature and Causes of the Wealth of Nations* (1776). Smith believed that business was and should be guided by the morals of good people. But in the eighteenth century, Smith could not imagine the complexity of modern markets or the size of multinationals or the fact that four or five companies could gain control of the vast majority of the resources of the world. His ideas did not envision the full force of democracy, or the immense wealth and power some firms could wield within countries.

Under capitalism, some managers view profit as the ultimate goal of an enterprise and therefore may not be concerned about the impact of their firms' decisions on society. The economist Milton Friedman supports this viewpoint, contending that the market will reward or punish companies for unethical conduct without the need for government regulation.[2] The emergence of this Friedman-type capitalism as the dominant and most widely accepted economic system has created market-driven societies around the world. Over the past six decades, the United States has been waging an ideological war over capitalism, first with the Soviet Union, then with Latin America in the 1980s, and finally with China. Even China's communist government has adapted capitalism and free enterprise to help it become a leading economic power. Of the 43 million companies in China, 93 percent are private, and they employ 92 percent of Chinese workers.[3]

The United States has been exporting the idea that the invisible hand of free-market capitalism can solve the troubles of mankind and guide societies toward greater happiness and prosperity as a result of the increased availability of products and services. Marketing helps consumers to understand, compare, and obtain these products and services, thereby increasing the efficiency and effectiveness of the exchange. However, free markets may not solve all problems. For example, excessive consumption has negative effects on the environment and can be psychologically, spiritually, and physically unhealthy.[4] In other words, more is not necessarily best in every situation.

Economic systems not only allocate resources and products within a society but also influence, and are influenced by, the actions and beliefs of individuals and of society as a whole. The success of an economic system depends on both its philosophical framework and on the individuals within the system who maintain moral philosophies that bring people together in a cooperative, efficient, and productive marketplace. There is a long Western tradition going back to Aristotle of questioning whether a market economy and individual moral behavior are compatible. The fact of the matter is that individuals in today's society exist within a framework of social, political, and economic institutions.

"People who face ethical issues often base their decisions on their own values and principles of right or wrong."

People who face ethical issues often base their decisions on their own values and principles of right or wrong, most of which they have learned through the socialization process with the help of family members, social groups, religions, and formal education. Individual factors that influence decision making include personal moral philosophies. Ethical dilemmas arise in problem-solving situations in which the rules governing decision making are vague or in conflict. In real-life situations, there is no substitute for an individual's own critical thinking and ability to accept responsibility for his or her decisions.

Moral philosophies are ideal moral perspectives that provide individuals with abstract principles for guiding their social existence. For example, a person's decision to recycle waste or to purchase or sell recycled or recyclable products is influenced by moral philosophies and individual attitudes toward recycling.[5] It is often difficult to implement an individual moral philosophy within the complex environment of a business organization. On the other hand, our economic system depends on individuals coming together and sharing philosophies to create the values, trust, and expectations that allow the system to work. Most employees within a business organization do not think about the particular moral philosophy they are using when they are confronted with an ethical issue.

Many theories associated with moral philosophies refer to a value orientation and to concepts such as economics, idealism, and relativism. The concept of the **economic value orientation** is associated with values that can be quantified by monetary means; according to this theory, if an act produces more value for its effort, then it should be accepted as ethical. **Idealism,** on the other hand, is a moral philosophy that places special value on ideas and ideals as products of the mind. The term refers to the efforts required to account for all objects in nature and experience and to assign to thema higher order of existence. Studies have found that there is a positive correlation between idealistic thinking and ethical decision making. **Realism** is the view that an external world exists independent of our perception of it. Realists assume that humankind is not naturally benevolent and kind, but instead inherently self-centered and competitive. According to realists, each person is ultimately guided by his or her own self-interest. Research shows a negative correlation between realistic thinking and ethical decision making. The belief that all actions are ultimately self-motivated seems to lead to a tendency toward unethical decision making.

MORAL PHILOSOPHIES

There are many moral philosophies, but because a detailed study of all of them is beyond the scope of this book, we will limit our discussion to those that are most applicable to the study of business ethics. Our approach focuses on the most basic concepts needed to help you understand the ethical decision-making process in business. We do not prescribe the use of any particular moral philosophy, for there is no one correct way to resolve ethical issues in business.

To help you understand how the moral philosophies discussed in this chapter may be applied in decision making, we use a hypothetical situation as an illustration. Suppose that Sam Colt, a sales representative, is preparing a sales presentation for his firm, Midwest Hardware, which manufactures nuts and bolts. Sam hopes to obtain a large sale from a construction firm that is building a bridge across the Mississippi River near St. Louis, Missouri. The bolts manufactured by Midwest Hardware have a 3 percent defect rate, which, although acceptable in the industry, makes them unsuitable for use in certain types of projects, such as those that may be subject to sudden, severe stress. The new bridge will be located near the New Madrid Fault line, the source of the United States' greatest earthquake in 1811. The epicenter of that earthquake, which caused extensive damage and altered the flow of the Mississippi, is less than 200 miles from the new bridge site. Earthquake experts believe there is a 50 percent chance that an earthquake with a magnitude greater than 7 will occur somewhere along the New Madrid Fault by the year 2030. Bridge construction in the area is not regulated by earthquake codes, however. If Sam wins the sale, he will earn a commission of $25,000 on top of his regular salary. But if he tells the contractor about the defect rate, Midwest may lose the sale to a competitor that markets bolts with a lower defect rate. Sam's ethical issue is whether to point out to the bridge contractor that, in the event of an earthquake, some Midwest bolts could fail, possibly resulting in the collapse of the bridge.

We will come back to this illustration as we discuss particular moral philosophies, asking how Sam Colt might use each philosophy to resolve his ethical issue. We don't judge the quality of Sam's decision, and we do not advocate any one moral philosophy; in fact, this illustration and Sam's decision rationales are necessarily simplistic as well as hypothetical. In reality, the decision maker would probably have many more factors to consider in making his or her choice and thus might reach a different decision. With that note of caution, we introduce the concept of goodness and several types of moral philosophy: teleology, deontology, the relativist perspective, virtue ethics, and justice (see Table 6.1).

Instrumental and Intrinsic Goodness

To appreciate moral philosophy, one must understand the different perspectives on the notion of goodness. Is there a clear and unwavering line between "good" and "bad"? What is the relationship between the ends and the means in generating "good" and "bad" outcomes? Is there some way to determine if the ends can be identified independently as good or bad? Aristotle, for example, argued that happiness is an intrinsically good end—in other words, its goodness is natural and universal, without relativity. On the other hand, the philosopher Immanuel Kant argued that goodwill, seriously applied toward accomplishment, is the only thing good in itself.

TABLE 6.1 A Comparison of the Philosophies Used in Business Decisions

Teleology	Stipulates that acts are morally right or acceptable if they produce some desired result, such as realization of self-interest or utility
Egoism	Defines right or acceptable actions as those that maximize a particular person's self-interest as defined by the individual
Utilitarianism	Defines right or acceptable actions as those that maximize total utility, or the greatest good for the greatest number of people
Deontology	Focuses on the preservation of individual rights and on the intentions associated with a particular behavior rather than on its consequences
Relativist	Evaluates ethicalness subjectively on the basis of individual and group experiences
Virtue ethics	Assumes that what is moral in a given situation is not only what conventional morality requires but also what the mature person with a "good" moral character would deem appropriate
Justice	Evaluates ethicalness on the basis of fairness: distributive, procedural, and interactional

Two basic concepts of goodness are monism and pluralism. **Monists** believe that only one thing is intrinsically good, and pluralists believe that two or more things are intrinsically good. Monists are often characterized by **hedonism**—the idea that pleasure is the ultimate good, or that the best moral end involves the greatest balance of pleasure over pain. Hedonism defines right or acceptable behavior as that which maximizes personal pleasure. Moral philosophers describe those who believe that more pleasure is better as **quantitative hedonists** and those who believe that it is possible to get too much of a good thing (such as pleasure) as **qualitative hedonists.**

Pluralists, often referred to as non-hedonists, take the opposite position that no *one* thing is intrinsically good. For example, a pluralist might view beauty, aesthetic experience, knowledge, and personal affection as ultimate goods. For example, Plato argued that the good life is a mixture of (1) moderation and fitness, (2) proportion and beauty, (3) intelligence and wisdom, (4) sciences and arts, and (5) pure pleasures of the soul.

Although all pluralists are non-hedonists, all monists are not necessarily hedonists. An individual can believe in a single intrinsic good other than pleasure; Machiavelli and Nietzsche held power to be the sole good, for example, and Kant's belief in the single virtue of goodwill classifies him as a monistic non-hedonist.

A more modern view is expressed in the instrumentalist position. Sometimes called pragmatists, **instrumentalists** reject the ideas that (1) ends can be separated from the means that produce them and that (2) ends, purposes, or outcomes are intrinsically good in and of themselves. The philosopher John Dewey argued that the difference between ends and means is merely a matter of the individual's perspective; thus, almost any action can be an end or a mean. Dewey gives the example that people eat to be able to work, and they work to be able to eat. From a practical standpoint, an end is only a remote mean, and the means are but a series of acts viewed from an earlier stage. From this conclusion it follows that there is no such thing as a single, universal end.

A discussion of moral value often revolves around the nature of goodness, but theories of moral obligation change the question to "What makes an action right or obligatory?"

Goodness theories typically focus on the *end result* of actions and the goodness or happiness created by them. **Obligation theories** emphasize the *means* and *motives* by which actions are justified, and are divided into the categories of teleology and deontology.

Teleology

Teleology (from the Greek word for "end" or "purpose") refers to moral philosophies in which an act is considered morally right or acceptable if it produces some desired result, such as pleasure, knowledge, career growth, the realization of self-interest, utility, wealth, or even fame. Teleological philosophies assess the moral worth of a behavior by looking at its consequences, and thus moral philosophers today often refer to these theories as **consequentialism.** Two important teleological philosophies that often guide decision making in individual business decisions are egoism and utilitarianism.

Egoism defines right or acceptable behavior in terms of its consequences for the individual. Egoists believe that they should make decisions that maximize their own self-interest, which is defined differently by each individual. Depending on the egoist, self-interest may be construed as physical well-being, power, pleasure, fame, a satisfying career, a good family life, wealth, or something else. In an ethical decision-making situation, an egoist will probably choose the alternative that contributes most to his or her self-interest. Many believe that egoistic people and companies are inherently unethical, short-term oriented, and willing to take advantage of any opportunity for gain. Some telemarketers demonstrate this egoism in action when they prey on elderly consumers who may be vulnerable because of loneliness or fear of losing their financial independence. Thousands of senior citizens fall victim to fraudulent telemarketers every year, in many cases losing all their savings and sometimes even their homes.

However, there also is **enlightened egoism.** Enlightened egoists take a long-range perspective and allow for the well-being of others although their own self-interest remains paramount. An example of enlightened egoism is a person helping a turtle across a highway because if it were killed the person would feel distressed.[6] Enlightened egoists may abide by professional codes of ethics, control pollution, avoid cheating on taxes, help create jobs, and support community projects. Yet they do so not because these actions benefit others but because they help achieve some ultimate individual goal, such as advancement within their firms. An enlightened egoist might call management's attention to a coworker who is making false accounting reports, but only to safeguard the company's reputation and thus the egoist's own job security. In addition, an enlightened egoist could become a whistle-blower and report misconduct to a regulatory agency to receive a reward for exposing misconduct. When businesses donate money, resources, or time to specific causes and institutions, their motives may not be purely altruistic either. For example, IBM donates or reduces the cost of computers to educational institutions in exchange for tax breaks. In addition, IBM hopes to build future sales by placing its products on campuses. When students enter the workforce, they may request the IBM products with which they have become familiar. Although the company's actions benefit society in general, in the long run they also benefit IBM.

Let's return to the hypothetical case of Sam Colt, who must decide whether to warn the bridge contractor that 3 percent of Midwest Hardware's bolts are likely to be defective. If he is an egoist, he will choose the alternative that maximizes his own self-interest. If he defines his self-interest in terms of personal wealth, his personal moral philosophy may lead him to value a $25,000 commission more than a chance to reduce the risk of a bridge collapse. As a result, an egoist might well resolve this ethical dilemma by keeping quiet about the bolts' defect rate, hoping to win the sale and the $25,000 commission. He may rationalize that there is a slim chance of an earthquake, that bolts would not be a factor in a major earthquake, and that, even if defective bolts were a factor, no one would actually be able to prove that they had caused the bridge to collapse.

"The utilitarian seeks the greatest good for the greatest number of people."

Like egoism, **utilitarianism** is concerned with consequences, but unlike the egoist, the utilitarian seeks the greatest good for the greatest number of people. Utilitarians believe that they should make decisions that result in the greatest total *utility*, or the greatest benefit for all those affected by a decision. An example of utilitarianism may be President Obama's 2009 economic stimulus package. The administration may have weighed its costs to the American taxpayer against the greater costs of allowing the entire economy to fall into a depression.

Utilitarian decision making relies on a systematic comparison of the costs and benefits to all affected parties. Using such 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 benefit. For example, the U.S. Supreme Court has ruled that supervisors are responsible for the sexual misconduct of employees, even if the employers knew nothing about the behavior, a decision that established a strict standard for harassment on the job. One of the justices wrote that the burden on the employer to prevent harassment is "one of the costs of doing business."[7] The Court had decided that the greatest utility to society would result from forcing businesses to prevent harassment.

In evaluating an action's consequences, utilitarians must consider all of the potential costs and benefits for all of the people affected by a decision. For example, Baxter Pharmaceuticals sells an anticoagulant drug called heparin, and for a time Baxter's suppliers in China were deliberately cutting their raw heparin batches with a counterfeit product to reduce costs. The U.S. Food and Drug Administration discovered problems with heparin from China when patients reported difficulty breathing, vomiting, excessive sweating, rapidly falling blood pressure, and even death.[8] If Baxter Pharmaceuticals or its suppliers had done a utilitarian analysis and realized that the costs associated with false heparin could include patient death, they might have chosen to pay more money for the real drug.

Utilitarians use various criteria to evaluate the morality of an action. Some utilitarian philosophers have argued that general rules should be followed to decide which action is best.[9] These **rule utilitarians** determine behavior on the basis of principles or rules designed to promote the greatest utility, rather than on individual examinations of each situation they encounter. One such rule might be "Bribery is wrong." If people felt free to offer bribes whenever they might be useful, the world would become chaotic; therefore, a rule prohibiting bribery would increase utility. A rule utilitarian would not bribe an official, even to preserve workers' jobs, but instead would adhere strictly to the rule. Rule utilitarians do not automatically accept conventional moral rules, however; if they determined that an alternative rule would promote greater utility, they would advocate its use instead.

Other utilitarian philosophers have argued that the rightness of each individual action must be evaluated to determine whether it produces the greatest utility for the greatest number of people.[10] These **act utilitarians** examine specific actions, rather than the general rules governing them, to assess whether they will result in the greatest utility. Rules such as "Bribery is wrong" serve only as general guidelines for act utilitarians. They would likely agree that bribery is generally wrong, not because there is anything inherently wrong with bribery, but because the total amount of utility decreases when one person's interests are placed ahead of those of society. In a particular case, however, an act utilitarian might argue that bribery is acceptable. For example, a sales manager might believe that his or her firm will not win a construction contract unless a local government official gets a bribe, and if the firm does not obtain the contract, it will have to lay off 100 workers. The manager might therefore argue that bribery is justified because saving 100 jobs creates more utility than obeying a law. For example, IBM paid $10 million to settle civil charges of bribery; according to the SEC, hundreds of IBM employees allegedly gave South Korean and Chinese officials cash, computers, travel, and entertainment in exchange for millions of dollars in government contracts.[11] These IBM employees may have decided that winning the contracts generated the most utility for themselves and for the company.

Now suppose that Sam Colt, the bolt salesperson, is a utilitarian. Before making his decision, he would conduct a cost–benefit analysis to assess which alternative would create the greatest utility. On the one hand, building the bridge would improve roadways and allow more people to cross the Mississippi River to reach jobs in St. Louis. The project would create hundreds of jobs, enhance the local economy, and unite communities on both sides of the river. Additionally, it would increase the revenues of Midwest Hardware, allowing the firm to invest more in research to lower the defect rate of the bolts it produces in the future. On the other hand, a bridge collapse could kill or injure as many as 100 people. But the bolts have only a 3 percent defect rate, there is only a 50 percent probability of an earthquake *somewhere* along the fault line, and there might be only a few cars on the bridge at the time of a disaster.

After analyzing the costs and benefits of the situation, Sam might rationalize that building the bridge with his company's bolts would create more utility (jobs, unity, economic growth, and company growth) than would result from telling the bridge contractor that the bolts might fail in an earthquake. If so, a utilitarian would probably not alert the bridge contractor to the defect rate of the bolts.

Deontology

Deontology (from the Greek word for "ethics") refers to moral philosophies that focus on the rights of individuals and on the intentions associated with a particular behavior rather than its consequences. Fundamental to deontological theory is the idea that equal respect must be given to all persons. Unlike utilitarians, deontologists argue that there are some things that we should *not* do, even to maximize utility. For example, deontologists would consider it wrong to kill an innocent person or commit a serious injustice against someone, no matter how much greater social utility might result from doing so, because such an action would infringe on individual rights. The utilitarian, however, might consider an action that resulted in a person's death acceptable if that action lead to some greater benefit. Deontological philosophies regard certain behaviors as inherently right, and the determination of this rightness focuses on the individual actor, not on society. Therefore these perspectives are sometimes referred to as **nonconsequentialism,** a system of ethics based on *respect for persons.*

Contemporary deontology has been greatly influenced by the German philosopher Immanuel Kant, who developed the so-called **categorical imperative:** "Act as if the maxim of thy action were to become by thy will a universal law of nature."[12] Simply put, if you feel comfortable allowing everyone in the world to see you commit an act and if your rationale for acting in a particular manner is suitable to become a universal principle guiding behavior, then committing that act is ethical. A person who borrows money and promises to return it with no intention of keeping that promise cannot "universalize" his or her act. If everyone were to borrow money without the intention of returning it, no one would take such promises seriously, and all lending would cease.[13] The rationale for the action would not be a suitable universal principle, and the act could not be considered ethical.

The term *nature* is crucial for deontologists. In general, deontologists regard the nature of moral principles as permanent and stable, and they believe that compliance with these principles defines ethicalness. Deontologists believe that individuals have certain absolute rights, including freedom of conscience, freedom of consent, freedom of privacy, freedom of speech, and due process.[14]

To decide whether a behavior is ethical, deontologists look for conformity to moral principles. For example, if a manufacturing worker becomes ill or dies as a result of conditions in the workplace, a deontologist might argue that the company must modify its production processes to correct the condition, no matter what the cost—even if it means bankrupting the company and thus causing all workers to lose their jobs. In contrast, a utilitarian would analyze all the costs and benefits of modifying production processes and make a decision on that basis. This example is greatly oversimplified, of course, but it helps to clarify the difference between teleology and deontology. In short, teleological philosophies consider the *ends* associated with an action, whereas deontological philosophies consider the *means*.

> **"Teleological philosophies consider the *ends* associated with an action, whereas deontological philosophies consider the *means*."**

Returning again to our bolt salesperson, let's consider a deontological Sam Colt. He would probably feel obligated to tell the bridge contractor about the defect rate because of the potential loss of life that might result from an earthquake-caused bridge collapse. Even though constructing the bridge would benefit residents and earn Sam a substantial commission, the failure of the bolts during an earthquake would infringe on the rights of any person crossing the bridge at the time of the collapse. Thus, the deontological Sam would be likely to inform the bridge contractor about the defect rate and point out the earthquake risk, even though he would probably lose the sale as a result.

As with utilitarians, deontologists may be divided into those who focus on moral rules and those who focus on the nature of the acts themselves. **Rule deontologists** believe that conformity to general moral principles based on logic determines ethicalness. Examples include Kant's categorical imperative and the Golden Rule of the Judeo-Christian tradition: "Do unto others as you would have them do unto you." Such rules, or principles, guiding ethical behavior override the imperatives that emerge from a specific context. One could argue that Jeffery Wigand—who exposed the underside of the tobacco industry when he blew the whistle on his employer, Brown & Williamson Tobacco—was such a rule deontologist. Although it cost him financially and socially, Wigand testified to Congress about the realities of marketing cigarettes and their effects on society.[15]

Rule deontology is determined by the relationship between the basic rights of the individual and a set of rules governing conduct. For example, a video store owner accused of distributing obscene materials could argue from a rule deontological perspective that the basic right to freedom of speech overrides the indecent or pornographic aspects of his business. Indeed, the free-speech argument has held up in many U.S. courts. Kant and rule deontologists would support a process of discovery to identify the moral issues relevant to a firm's mission and objectives. Then they would follow a process of justifying that mission or those objectives based on rules.[16] An example of a rule deontologist is JetBlue's former CEO David Neeleman. Because of a severe snowstorm, several JetBlue flights were delayed for as many as nine hours on the runway, and passengers were kept in their seats. After the incident, Neeleman issued a public apology for his company's mismanagement of the situation, introduced a "Customer Bill of Rights,"[17] and offered $40 million in compensation to the affected passengers.

Act deontologists, in contrast, hold that actions are the proper basis on which to judge morality or ethicalness. Act deontology requires that a person use equity, fairness, and impartiality when making and enforcing decisions.[18] For act deontologists, past experiences are more important than rules; rules serve only as guidelines in the decision-making process. In effect, act deontologists suggest that people simply *know* that certain acts are right or wrong, regardless of their consequences. In addition, act deontologists consider that the unique characteristics of a particular act or moment in time take precedence over any rule. For example, many people view data collection by Internet sites as a violation of personal privacy; regardless of any website's stated rules or policies, many Internet users want to be left alone unless they provide permission to be tracked while online. Privacy has become such an issue that the government is considering regulation to protect online users, including the adoption of "do not track" technology.[19] Research suggests that rule and act deontological principles play a larger role in a person's decision than teleological philosophies.[20]

As we have seen, ethical issues can be evaluated from many different perspectives. Each type of philosophy discussed here would provide a clear basis for deciding whether a particular action was right or wrong. Adherents of different personal moral philosophies may disagree in their evaluations of a given action, yet all are behaving ethically *according to their own standards.* The relativist perspective may be helpful in understanding how people make such decisions in practice.

Relativist Perspective

From the **relativist perspective,** definitions of ethical behavior are derived subjectively from the experiences of individuals and groups. Relativists use themselves or the people around them as their basis for defining ethical standards, and the various forms of relativism include descriptive, metaethical, and normative.[21] **Descriptive relativism** relates to observations of other cultures. Different cultures exhibit different norms, customs, and values, but these observations say nothing about the higher questions of ethical justification. At this point metaethical relativism comes into play. **Metaethical relativism** proposes that people naturally see situations from their own perspectives, and that there is no objective way of resolving ethical disputes between different value systems and individuals. Simply put, one culture's moral philosophy cannot logically be preferred to another's because no meaningful basis for comparison exists. Because ethical rules are embedded in a specific culture, the values and behaviors of people in one culture do not generally influence the behaviors of people in another culture.[22] Finally, at the individual level of reasoning, we have **normative relativism**. Normative relativists assume that one person's opinion is as good as another's.[23]

Basic relativism acknowledges that we live in a world in which people have many different views and bases from which to justify decisions as right or wrong. The relativist looks to the interacting groups and tries to determine probable solutions based on group consensus. When formulating business strategies and plans, for example, a relativist would try to anticipate the conflicts that might arise between the different philosophies held by members of the organization, its suppliers, its customers, and the community at large.

The relativist observes the actions of members of an involved group and attempts to determine that group's consensus on a given behavior. A positive consensus signifies that the group considers the action to be ethical. However, such judgments may not remain valid forever. As circumstances evolve or the makeup of the group changes, a formerly accepted behavior may come to be viewed as wrong or unethical, or vice versa. Within the accounting profession, for example, it was traditionally considered unethical to advertise. However, advertising has now gained acceptance among accountants. This shift in ethical views may be the result of the increase in the number of accountants, which has led to greater competition. Moreover, the federal government investigated the restrictions that accounting groups placed on their members and concluded that they inhibited free competition. Consequently, advertising is now acceptable because of the informal consensus that emerged on this issue in the accounting industry.

One problem with relativism is that it emphasizes peoples' differences while ignoring their basic similarities. Similarities across different people and cultures—such as beliefs against incest, murder, and theft, or beliefs that reciprocity and respect for the elderly are good—may be hard to explain from the relativist perspective. Additionally, studies suggest that relativism is negatively correlated to a person's sensitivity to ethical issues. Thus, if someone is a relativist, he or she will be less likely to detect issues that have an ethical component.[24] On the other hand, managers with high relativism may show more commitment to completing a project. This indicates that relativism is associated with dedication to group values and objectives, leading to less independent ethical decision making.[25]

If Midwest Hardware salesperson Sam Colt were a relativist, he would attempt to determine consensus before deciding whether to tell his prospective customer about the bolts' defect rate. The relativist Sam Colt would look at his company's policy and at the general industry standards for disclosure. He might also informally survey his colleagues and superiors as well as consult industry trade journals and codes of ethics. Such investigations would help him determine the group consensus, which should reflect a variety of moral philosophies. If he learns that company policy and industry practice suggest discussing defect rates with those customers for whom faulty bolts may cause serious problems, he may infer that there is a consensus on the matter. As a relativist, he probably would inform the bridge contractor that some of the bolts may fail, perhaps leading to a bridge collapse in the event of an earthquake. Conversely, if he determines that the normal practice in his company and the industry is not to inform customers about defect rates, he would probably not discuss the bolt defect rate with the bridge contractor.

Virtue Ethics

Virtue ethics argues that ethical behavior involves not only adhering to conventional moral standards but also considering what a mature person with a "good" moral character would deem appropriate in a given situation. A moral virtue represents an acquired disposition that is valued as a part of an individual's character. As individuals develop socially, they come to behave in ways that they consider to be moral.[26] For example, a person who has the character trait of honesty will be disposed to tell the truth because it is considered to be the right approach in terms of human communication.

A virtue is considered praiseworthy because it is an achievement that an individual has developed through practice and commitment.[27] Proponents of virtue ethics often list basic goods and virtues, which are presented as positive and useful mental habits or cultivated character traits. Aristotle named loyalty, courage, wit, community, and judgment as "excellences" that society requires. While listing the most important virtues is a popular theoretical task, however, the philosopher John Dewey cautions that virtues should not be looked at separately, and points out that examining interactions between virtues actually provides the best idea of a person's integrity of character.

The virtue ethics approach to business can be summarized as follows:

1. Good corporate ethics programs encourage individual virtue and integrity.
2. By the employee's role in the community (organization), these virtues form a good person.
3. An individual's ultimate purpose is to serve society's demands and the public good and to be rewarded in his or her career.
4. The well-being of the community goes hand in hand with individual excellence.[28]

The difference between deontology, teleology, and virtue ethics is that the first two are applied *deductively* to problems, whereas virtue ethics is applied *inductively.* Virtue ethics assumes that societal moral rules form the foundation of virtue. Our political, social, and economic systems depend upon the presence of certain virtues among citizens in order to function successfully.[29]

Indeed, virtue ethics could be thought of as a dynamic theory of how to conduct business activities. The virtue ethicist believes that a successful market economy depends upon social institutions such as family, school, church, and community, in which virtues can be nurtured. These virtues, including honesty, trust, tolerance, and restraint, create obligations that make cooperation possible. In a market economy based on virtues, individuals have powerful incentives to conform to prevailing standards of behavior. Some philosophers think that social virtues may be eroded by the market, but virtue ethicists believe that economic institutions are in balance with, and support, other social institutions.[30] Some of the virtues that could be seen as driving a market economy are listed in Table 6.2. Although not comprehensive, the list provides examples of the types of virtues that support the conduct of business.

> **"In a market economy based on virtues, individuals have powerful incentives to conform to prevailing standards of behavior."**

The elements of virtue that are most important to business transactions are trust, self-control, empathy, fairness, and truthfulness. Unvirtuous characteristics include lying, cheating, fraud, and corruption. In their broadest sense, concepts of virtue appear across all cultures. The problem of virtue ethics comes in its implementation within and between cultures. For example, if a company 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 organization's approval of such acts. Other employees might view this truthful employee as highly ethical; however, in order to rationalize their own behavior, they may judge his or her ethics as going beyond what is required by the job or society. Critics of virtue ethics argue that true virtue is an unattainable goal, but to virtue ethicists, this relativistic argument is meaningless because they believe in the universality of the elements of virtue.

If bolt salesperson Sam Colt were a virtue ethicist, he would consider the elements of virtue (such as honesty and trust) and then tell the prospective customer about the defect rate and about his concerns regarding the building of the bridge. Sam would not resort to puffery to explain the product or its risks, and might even suggest alternative products or companies that would lower the probability of the bridge collapsing.

Justice

Justice is fair treatment and due reward in accordance with ethical or legal standards, including the disposition to deal with perceived injustices of others. The justice of a situation is based on the perceived rights of individuals and on the intentions of the people involved

TABLE 6.2 Virtues that Support Business Transactions

Trust: The predisposition to place confidence in the behavior of others while taking the risk that the expected behavior will not be performed	Eliminates the need for and associated cost of monitoring compliance with agreements, contracts, and reciprocal agreements, as there is the expectation that a promise or agreement can be relied on
Self-control: The disposition to pass up an immediate advantage or gratification; the ability to avoid exploiting a known opportunity for personal gain	Gives up short-term self-interest for long-term benefits
Empathy: The ability to share the feelings or emotions of others	Promotes civility because success in the market depends on the courteous treatment of people who have the option of going to competitors; the ability to anticipate needs and satisfy customers and employees contributes to a firm's economic success
Fairness: The disposition to deal equitably with the perceived injustices of others	Often relates to doing the right thing with respect to small matters in order to cultivate a long-term business relationship
Truthfulness: The disposition to provide the facts or correct information as known to the individual	Involves avoiding deception and contributes to trust in business relationships
Learning: The disposition to constantly acquire knowledge internal and external to the firm, whether about an industry, corporate culture, or other societies	Gaining knowledge to make better, more informed decisions
Gratitude: A sign of maturity that is the foundation of civility and decency	The recognition that people do not succeed alone
Civility: The disposition or essence of courtesy, politeness, respect, and consideration for others	Relates to the process of doing business in a culturally correct way, thus decreasing communication errors and increasing trust
Moral leadership: Strength of character, peace of mind and heart, leading to happiness in life	A trait of leaders who follow a consistent pattern of behavior based on virtues

Source: Adapted from Ian Maitland, "Virtuous Markets: The Market as School of the Virtues," *Business Ethics Quarterly* (January 1997): 97; and Gordon B. Hinckley, *Standing for Something: 10 Neglected Virtues that Will Heal Our Hearts and Homes* (New York: Three Rivers Press, 2001).

in a business interaction. In other words, justice relates to the issue of what individuals feel they are due based on their rights and performance in the workplace. For this reason, justice is more likely to be based on deontological moral philosophies than on teleological or utilitarian philosophies.

Three types of justice provide a framework for evaluating different situations (see Table 6.3). **Distributive justice** is based on the evaluation of the outcomes or results of a business relationship. If some employees feel that they are paid less than their coworkers for the same work, they have concerns about distributive justice. Distributive justice is difficult to effect when one member of the business exchange intends to take advantage of the relationship. A boss who forces his employees to do more work so that he can take more time off would be unjust because he is taking advantage of his position. Situations such as this cause an imbalance in distributive justice.

TABLE 6.3 Types of Justice

Justice Type	Areas of Emphasis
Distributive justice: Based on the evaluation of *outcomes* or *results* of the business relationship	Benefits derived Equity in rewards
Procedural justice: Based on the *processes* and *activities* that produce the outcome or results	Decision-making process Level of access, openness, and participation
Interactional justice: Based on *relationships* and the *treatment* of others	Accuracy of information Truthfulness, respect, and courtesy in the process

Procedural justice considers the processes and activities that produce a particular outcome. A climate that emphasizes procedural justice positively influences employees' attitudes and behaviors toward work-group cohesion. The visibility of supervisors and the work group's perceptions of its own cohesiveness are products of a climate of procedural justice.[31] When there is strong employee support for decisions, decision makers, organizations, and outcomes, procedural justice is less important to the individual. In contrast, when employees' support for decisions, decision makers, organizations, or outcomes is not very strong, then procedural justice becomes more important.[32] For example, Nugget Markets in Woodland, California, has a corporate culture that focuses on employees, who create policies for each store. Because of the economy and as a result of employee comments, Nugget Markets gives employees cards good for 10 percent discounts on $500 worth of groceries every month, and at one employee-appreciation event, the executive team members washed the cars of all the associates.[33] Thus, Nugget Markets uses methods of procedural justice to establish positive stakeholder relationships by promoting understanding and inclusion in the decision-making process. Evaluations of performance that are not consistently developed and applied can lead to problems with procedural justice. For instance, employees' concerns about unequal compensation relate to their perceptions that the processes of justice in their company are inconsistent.

Interactional justice is based on the relationships between organizational members, including the way employees and management treat one another. Interactional justice is linked to fairness within member interactions. It often involves an individual's relationship with the accuracy of the information a business organization provides. Although interactional justice often refers to how managers treat their subordinates, employees can also be guilty in creating interactional justice disputes. For example, many employees admit that they stay home when they are not really sick if they feel they can get away with it. Such workplace absenteeism costs businesses millions of dollars each year.

All three types of justice—distributive, procedural, and interactional—could be used to measure a single business situation and the fairness of the organization and individuals involved. In general, justice evaluations result in restitution seeking, relationship building, and evaluations of fairness in business relationships. Using the example of Sam Colt, Sam would feel obligated to tell all affected parties about the bolt defect rate and the possible consequences in order to create a fair transaction process.

APPLYING MORAL PHILOSOPHY TO ETHICAL DECISION MAKING

> **"Individuals use different moral philosophies depending on whether they are making a personal decision or a work-related decision."**

Individuals use different moral philosophies depending on whether they are making a personal decision or a work-related decision.[34] Two things may explain this behavior. First, in the business arena, some goals and pressures for success differ from the goals and pressures in a person's life outside of work. As a result, an employee might view a specific action as good in the business sector but unacceptable outside the work environment. Some suggest that business managers are morally different from other people. In a way, this is correct, in that business contains one variable that is absent from other situations: the profit motive. The various factors that make up a person's moral philosophy are weighted differently in a business (profit) situation. The comment "It's not personal, it's just business" demonstrates the conflict businesspeople can experience when their personal values do not align with utilitarian or profit-oriented decisions. The reality is that if firms do not make a profit, they will fail. However, this fact should not be a justification for seeking excessive profits or executive pay, issues which are now being questioned by stakeholders.

The second reason people change moral philosophies is the corporate culture in which they work. When children enter school, they learn certain rules, such as raising their hands to speak or asking permission to use the restroom. So it is with a new employee. Rules, personalities, and precedents exert pressure on the employee to conform to the new firm's culture. As this process occurs, the individual's moral philosophy may change to become compatible with the work environment. Many people are acquainted with those who are respected for their goodness at home or in their communities but make unethical decisions in the workplace. Even Bernard Madoff, the perpetrator of the largest Ponzi scheme in history, had a reputation as an upstanding citizen before his fraud was uncovered.

Obviously, the concept of a moral philosophy is inexact. For that reason, moral philosophies must be assessed on a continuum rather than as static entities. Each philosophy states an ideal perspective, and most individuals shift between different moral philosophies as they experience and interpret ethical dilemmas. In other words, implementing moral philosophies from an individual perspective requires individuals to apply their own accepted value systems to real-world situations. Individuals make judgments about what they believe to be right or wrong, but in their business lives they make decisions that also take into consideration how to generate the greatest benefits with the least harm. Such decisions should respect fundamental moral rights as well as perspectives on fairness, justice, and the common good, but these issues become complicated in the real world.

Problems arise when employees encounter ethical situations that they cannot resolve. Sometimes gaining a better understanding of their decision rationale can help employees to choose the right solutions. For instance, to decide whether they should offer bribes to potential customers to secure a large contract, salespeople need to understand their own personal moral philosophies as well as their firm's core values and the relevant laws. If complying with company policy or legal requirements is an important motivation to the individual, he or she is less likely to offer a bribe. On the other hand, if the salesperson's ultimate goal is a successful career and if offering a bribe seems likely to result in a promotion, then bribery might not be inconsistent with that person's moral philosophy of acceptable business behavior. Even though bribery is illegal under U.S. law, the employee may rationalize that bribery is necessary "because everyone else does it."

The virtue approach to business ethics, as discussed earlier, assumes that there are certain ideals and values that everyone should strive for in order to achieve the maximum welfare and happiness of society.[35] Aspects of these ideals and values are expressed through individuals' specific moral philosophies. Every day in the workplace, employees must decide what is right or wrong and act accordingly. At the same time, as a member of a larger organization, an employee cannot simply enforce his or her own personal perspective, especially if he or she adheres narrowly to a single moral philosophy. Because individuals cannot control most of the decisions in their work environment, they rarely have the power (especially in entry-level and middle-management positions) to impose their own personal moral perspectives on others. In fact, although they are always responsible for their own actions, a new employee is not likely to have the freedom to make independent decisions on a variety of job responsibilities.

Sometimes a company makes decisions that could be questionable from the perspective of individual customers' values and moral philosophies. For example, some stakeholders might consider a brewery or a distributor of sexually explicit movies unethical, based on their personal perspectives. A company's core values will determine how it makes decisions in which moral philosophies are in conflict. Most businesses have developed a mission statement, a corporate culture, and a set of core values that express how they want to relate to their stakeholders, including customers, employees, the legal system, and society. It is usually impossible to please all stakeholders at once.

COGNITIVE MORAL DEVELOPMENT

Many people believe that individuals advance through stages of moral development as their knowledge and socialization progress. In this section, we examine a model that describes this cognitive moral development process. Cognitive moral processing is based on a body of literature in psychology that focuses on the study of children and their cognitive development.[36] However, cognitive moral processing is also an element in ethical decision making, and many models attempt to explain, predict, and control individuals' ethical behavior.

Psychologist Lawrence Kohlberg developed a six-stage model of cognitive development. Although not specifically designed for business contexts, this model provides an interesting perspective on the issue of moral philosophy in business. According to **Kohlberg's model of cognitive moral development,** people make different decisions in similar ethical situations because they are in different moral development stages. The six stages identified by Kohlberg are as follows:

1. *The stage of punishment and obedience.* An individual in Kohlberg's first stage defines *right* as literal obedience to rules and authority. A person in this stage will respond to rules and labels of "good" and "bad" in terms of the physical power of those who determine such rules. Right and wrong are not connected with any higher order or philosophy but rather with a person who has power. Stage 1 is usually associated with small children, but signs of stage 1 development are also evident in adult behavior. For example, some companies forbid their buyers to accept gifts from salespeople. A buyer in stage 1 might justify a refusal to accept gifts from salespeople by referring to the company's rule, or the buyer may accept the gift if he or she believes that there is no chance of being caught and punished.

2. *The stage of individual instrumental purpose and exchange.* An individual in stage 2 defines *right* as that which serves his or her own needs. In this stage, the individual no longer makes moral decisions solely on the basis of specific rules or authority figures; he or she now evaluates behavior on the basis of its fairness to him or her. For example, a sales representative in stage 2 doing business for the first time in a foreign country may be expected by custom to give customers gifts. Although gift giving may be against company policy in the United States, the salesperson may decide that certain company rules designed for operating in the United States do not apply overseas. In the cultures of some foreign countries, gifts may be considered part of a person's pay. So, in this instance, not giving a gift might put the salesperson at a disadvantage. Some refer to stage 2 as the stage of reciprocity because, from a practical standpoint, ethical decisions are based on an agreement that "you scratch my back and I'll scratch yours" instead of on principles of loyalty, gratitude, or justice.
3. *The stage of mutual interpersonal expectations, relationships, and conformity.* An individual in stage 3 emphasizes the interests of others rather than simply those of him- or herself, although ethical motivation is still derived from obedience to rules. A production manager in this stage might obey upper management's order to speed up an assembly line if he or she believed that doing so would generate more profit for the company and thus save employee jobs. This manager not only considers his or her own well-being in deciding to follow the order but also tries to put him- or herself in upper management's and fellow employees' shoes. Thus, stage 3 differs from stage 2 in that fairness to others is one of the individual's ethical motives.
4. *The stage of social system and conscience maintenance.* An individual in stage 4 determines what is right by considering his or her duty to society, not just to certain other people. Duty, respect for authority, and the maintenance of the social order become the focal points at this stage. For example, some managers consider it a duty to society to protect privacy and therefore refrain from monitoring employee conversations.
5. *The stage of prior rights, social contract, or utility.* In stage 5, an individual is concerned with upholding the basic rights, values, and legal contracts of society. Individuals in this stage feel a sense of obligation or commitment to other groups—they feel, in other words, that they are part of a social contract—and recognize that in some cases legal and moral points of view may conflict. To reduce such conflict, stage 5 individuals base their decisions on a rational calculation of overall utility. For example, the president of a firm may decide to establish an ethics program because it will provide a buffer against legal problems, and the firm will be perceived as a responsible contributor to society.
6. *The stage of universal ethical principles.* A person in this stage believes that right is determined by universal ethical principles that everyone should follow. Stage 6 individuals believe that certain inalienable rights exist that are universal in nature and consequence. These rights, laws, or social agreements are valid not because of a particular society's laws or customs, but because they rest on the premise of universality. Justice and equality are examples of principles that some individuals and societies deem universal in nature. A person in this stage may be more concerned with social ethical issues and therefore not rely on the business organization for ethical direction. For example, a businessperson at this stage might argue for discontinuing a product that has caused death and injury because the inalienable right to life makes killing wrong, regardless of the reason. Therefore, company profits would not be a justification for the continued sale of the product.[37]

Kohlberg's six stages can be reduced to three levels of ethical concern. At the first level, a person is concerned with his or her own immediate interests and with external rewards and punishments. At the second level, an individual equates *right* with conformity to the expectations of good behavior of the larger society or some other significant reference group. Finally, at the third, or "principled," level, an individual sees beyond the norms, laws, and authority of groups or individuals. Employees at this level make ethical decisions regardless of negative external pressures. However, research has shown that most workers' abilities to identify and resolve moral dilemmas do not reside at this third level and that their motives are often a mixture of selflessness, self-interest, and selfishness.

Kohlberg suggests that people continue to change their decision-making priorities after their formative years, and as a result of time, education, and experience, they may change their values and ethical behavior. In the context of business, an individual's moral development can be influenced by corporate culture, especially ethics training. Ethics training and education have been shown to improve managers' cognitive development scores.[38] Because of corporate reform, most employees in *Fortune* 1000 companies today receive some type of ethics training. Training is also a requirement of the Federal Sentencing Guidelines for Organizations.

Some experts believe that experience in resolving moral conflicts accelerates an individual's progress in moral development. A manager who relies on a specific set of values or rules may eventually come across a situation in which these rules do not apply. For example, suppose Sarah is a manager whose policy is to fire any employee whose productivity declines for four consecutive months. Sarah has an employee, George, whose productivity has suffered because of depression, but George's coworkers tell Sarah that George will recover and soon become a top performer again. Because of the circumstances and the perceived value of the employee, Sarah may bend the rule and keep George. Managers in the highest stages of the moral development process seem to be more democratic than autocratic, and they are more likely than those at lower stages to consider the ethical views of the other people involved in an ethical decision-making situation.

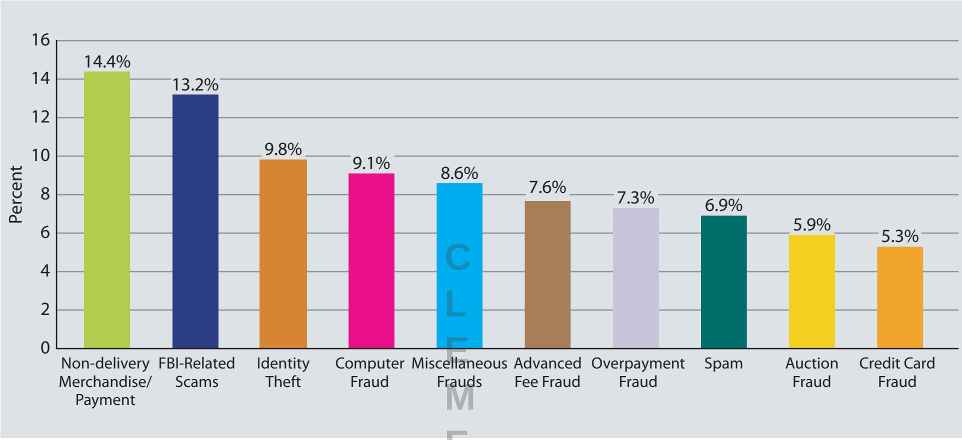
WHITE-COLLAR CRIME

For many people, the terms *crime* and *criminal* tend to evoke thoughts of rape, arson, armed robbery, or murder. These violent crimes are devastating, but they are no less destructive than the crimes perpetrated every year by nonviolent business criminals. So-called **white-collar crime** (WCC) does more damage in monetary and emotional loss in one year than violent crimes do over several years combined.[39]

White-collar criminals tend to be highly educated people who are in positions of power, trust, respectability and responsibility within a business or organization. They commit illegal acts for personal and/or organizational gains by abusing the trust and authority normally associated with their positions. The victims of WCC are often trusting consumers who believe that businesses are legitimate.

At first glance, deciding what constitutes a white-collar crime seems fairly simple. According to the U.S. Department of Justice, a WCC is a "non-violent criminal act involving deceit, concealment, subterfuge and other fraudulent activity." The corporate executive who manipulates the stock market, the tax cheat, or the doctor who falsely bills Medicaid are all obvious white collar criminals. But a government official who accepts illegal

FIGURE 6.1 Top 10 Internet Crime Complaint Categories



Source: "2010 Internet Crime Report," Internet Crime Complaint Center, http://www.ic3.gov/media/annualreport/2010_IC3Report.pdf.

payments is also a white-collar criminal, and guilty of official corruption. Additionally, a corporate executive who approves the illegal disposal of toxic waste is a white-collar criminal guilty of violating environmental regulations.

Online white-collar crime is a growing problem around the world. Because many companies rely on advanced technology systems, anyone with the ability to hack into a system can access the highly sensitive information necessary to commit WCC. WCCs that previously originated at the top of organizations can now occur at any level of a firm. Common online white-collar crimes include non-delivery of merchandise or payment, FBI-related scams, and identity theft (see Figure 6.1).

White-collar crime is also a major problem in the financial world. One infamous example is Barry Minkow, a white-collar criminal who found ways to manipulate the financial system for his own personal gain. In the 1980s he developed a firm, ZZZZ Best, which turned into a giant stock fraud that fooled experts on Wall Street. After his first term in prison, Minkow became a prominent financial-fraud investigator, even receiving praise from the FBI. However, in 2011 he pled guilty to insider trading after allegedly receiving nonpublic information about Lennar Corp., purchasing stock options on the company, and releasing a video that caused Lennar's stock to plummet.[40] Another example of a white-collar criminal is Bernard Madoff; his case is examined in detail in Part 5.

White-collar crime is increasing steadily (see Table 6.4). Complaints linked to fraud increased 22.3 percent in one year, representing a $559.7 million loss to companies. A few

TABLE 6.4 U.S. Consumer Fraud Complaints

Year	Complaints Received	Dollar Loss
2009	336,655	$559.7 million
2008	275,284	$265 million
2007	206,884	$239.09 million
2006	207,492	$198.44 million

Source: U.S. Census Bureau, "Fraud and Identity Theft—Consumer Complaints by State: 2009," http://www.census.gov/compendia/statab/2011/tables/11s0333.pdf (accessed April 8, 2011).

common white-collar offenses include antitrust violations, computer and Internet fraud, credit card fraud, bankruptcy fraud, health care fraud, tax evasion, violating environmental laws, insider trading, bribery, kickbacks, money laundering, and theft of trade secrets.

In response to the surge in white-collar crime, the U.S. government has stepped up efforts to combat it. The government is concerned about the destabilizing effect that WCC has on U.S. households and on the economy in general. The government can charge individuals and corporations for WCC offenses. The penalties include fines, home detention, paying for the cost of prosecution, forfeitures, and even prison time. However, sanctions often are reduced if the defendant takes responsibility for the crime and assists the authorities in their investigation. Many people do not feel that the government is devoting enough resources to combat WCC.

Why do individuals commit white-collar crimes? Advocates of the organizational deviance perspective argue that a corporation is a living, breathing organism that can collectively become deviant. When companies have lives that are separate and distinct from biological persons, the corporate culture of the company transcends the individuals who occupy these positions. With time, patterns of activities become institutionalized within the organization, and these patterns sometimes encourage unethical behaviors.

Another common cause of WCC is the views and behaviors of an individual's acquaintances within an organization. Employees, at least in part, self-select the people with whom they associate within an organization. For companies with a high number of ethical or unethical employees, people who are undecided about their behavior (about 40 percent of businesspeople) are more likely go along with their coworkers.

DEBATE ISSUE TAKE A STAND

Why Do People Engage in White-Collar Crime?

White-collar crime occurs when highly trusted and educated individuals commit criminal misconduct. Two examples of white-collar criminals are Bernard Madoff, who developed one of the largest Ponzi schemes ever, and R. Allen Stanford, who developed an $8 billion certificate of deposit program promising unrealistically high interest rates. Different theories exist as to why individuals become white-collar criminals. Research has shown that 1 percent of business executives may be corporate psychopaths with a predisposition to lie, cheat, and take any other measures necessary to come out ahead. This possibility may account for the fact that many white-collar criminals become entrepreneurs, thus putting themselves in a position to control others. This theory might account for rogue individuals such as Bernard Madoff.

Many believe that white-collar crime evolves when corporate cultures do not have effective oversight and controls over individuals' behavior. Such toxic organizational cultures occur when unethical activities are overlooked or even encouraged. For instance, many employees engaged in liar loans at Countrywide Financial because they received rewards for bringing in additional profits. It seems unlikely that they all had psychological maladies.[41]

1. White-collar criminals tend to have psychological disorders that encourage misconduct as a route to success.
2. White-collar crime occurs as a result of organizational cultures that do not effectively control organizational behavior.

Additionally, the incidence of WCCs tends to increase in the years following economic recessions. When companies downsize, the stressful business climate may anger some employees and force others to act out of desperation. Furthermore, as businesses begin to expand and grow, fraudsters find gaps in corporate processes and exploit growth opportunities.[42]

TABLE 6.5 Common Justifications for White-Collar Crime

1. Denial of responsibility. (Everyone can, with varying degrees of plausibility, point the finger at someone else.)
2. Denial of injury. (White-collar criminals often never meet or interact with those who are harmed by their actions.)
3. Denial of the victim. (The offender is playing tit-for-tat and claims to be responding to a prior offense inflicted by the supposed victim.)
4. Condemnation of the condemners. (Executives dispute the legitimacy of the laws under which they are charged, or impugn the motives of the prosecutors who enforce them.)
5. Appeal to a higher authority. ("I did it for my family" remains a popular excuse.)
6. Everyone else is doing it. (Because of the highly competitive marketplace, certain pressures exist to perform that may drive people to break the law.)
7. Entitlement. (Criminals simply deny the authority of the laws they have broken.)

Source: Adapted from Daniel J. Curran and Claire M. Renzetti, *Theories of Crime* (Needham Heights, MA: Allyn & Bacon, 1994).

Finally, as with criminals in the general population, there is the possibility that some businesspeople may have personalities that are inherently criminal.[43] Corporate psychopaths, or managers who are nonviolent, selfish, and remorseless, exist in many large corporations. Employees of corporate psychopaths are less likely to believe that their organization is socially responsible, that the organization shows commitment to employees, or that they receive recognition for their work.[44] Some organizations use personality tests to predict behavior, but such tests presuppose that individual values and philosophies are constant; therefore, they seem to be ineffective in understanding the motivations of white-collar criminals.[45]

The reasons for the increases in WCC are not easy to pinpoint because many variables may cause good people to make bad decisions. Businesspeople must make a profit on revenue to exist, a fact that slants their orientation toward teleology and creates a culture in which white-collar crimes can become normalized. Table 6.5 lists some of the top justifications given by perpetrators of white-collar crimes. The Federal Sentencing Guidelines for Organizations state that all organizations should develop effective ethics and compliance programs as well as internal controls to prevent WCC.

INDIVIDUAL FACTORS IN BUSINESS ETHICS

Of course, not everyone agrees on the roles of collective moral philosophies in ethical decision making within an organization. Unfortunately, many people believe that individual values are the main driver of ethical behavior in business. This belief can be a stumbling block in assessing ethical risk and preventing misconduct in an organizational context. The moral values learned within the family and through religion and education are certainly key factors that influence decision making, but as indicated in the models in Chapter 5, these values are only one factor. Many companies and business schools focus mainly on personal character or moral development in their training programs, reinforcing the notion that employees can control their work environments. Although a personal moral compass is important, it is not sufficient to prevent ethical misconduct in an organizational context. According to ethics consultant David Gebler, “Most unethical behavior is not done for personal gain, it’s done to meet performance goals.”[46] The rewards for meeting performance goals and the corporate culture in general have been found to be the most important drivers of ethical decision making, especially for coworkers and managers.[47]

The development of strong abilities in ethical reasoning will probably lead to more ethical business decisions in the future than individualized character education for each employee.[48] Equipping employees with intellectual skills that allow them to understand and resolve the complex ethical dilemmas they encounter in complex corporate cultures will help them to make the right decisions. This approach will hopefully keep employees from being negatively influenced by peer pressure and lulled by unethical managers.[49] The West Point model for character development focuses on the fact that competence and character must be developed simultaneously. This model assumes that ethical reasoning has to be approached in the context of a specific profession. The military has been effective in teaching skills and developing principles and values that can be used in most of the situations that a soldier will encounter. In a similar manner, accountants, managers, and marketers need to develop ethical reasoning in the context of their jobs.

SUMMARY

Moral philosophy refers to the set of principles, or rules, that people use to decide what is right or wrong. These principles or rules provide guidelines for resolving conflicts and for optimizing the mutual benefit of people living in groups. Businesspeople are guided by moral philosophies as they formulate business strategies and resolve specific ethical issues, even if they may not realize it.

Teleological, or consequentialist, philosophies stipulate that acts are morally right or acceptable if they produce some desired result, such as the realization of self-interest or utility. Egoism defines right or acceptable behavior in terms of the consequences for the individual. In an ethical decision-making situation, the egoist will choose the alternative that contributes most to his or her own self-interest. Egoism can be further divided into hedonism and enlightened egoism. Utilitarianism is concerned with maximizing total utility, or providing the greatest benefit for the greatest number of people. In making ethical decisions, utilitarians often conduct cost–benefit analyses, which consider the costs and benefits to all affected parties. Rule utilitarians determine behavior on the basis of rules designed to promote the greatest utility rather than by examining particular situations. Act utilitarians examine the action itself, rather than the rules governing the action, to determine whether it will result in the greatest utility.

Deontological, or nonconsequentialist, philosophies focus on the rights of individuals and on the intentions behind an individual’s particular behavior rather than on its consequences. In general, deontologists regard the nature of moral principles as permanent and stable, and they believe that compliance with these principles defines ethical behavior. Deontologists believe that individuals have certain absolute rights that must be respected. Rule deontologists believe that conformity to general moral principles determines ethical behavior. Act deontologists hold that actions are the proper basis on which to judge morality or ethicalness and that rules serve only as guidelines.

According to the relativist perspective, definitions of ethical behavior are derived subjectively from the experiences of individuals and groups. The relativist observes behavior within a relevant group and attempts to determine what consensus group members have reached on the issue in question.

Virtue ethics states that what is moral in a given situation is not only what is required by conventional morality or current social definitions, however justified, but also by what a person with a "good" moral character would deem appropriate. Those who profess virtue ethics do not believe that the end justifies the means in any situation.

The concept of justice in business relates to fair treatment and due reward in accordance with ethical or legal standards. Distributive justice is based on the evaluation of the outcome or results of a business relationship. Procedural justice is based on the processes and activities that produce outcomes or results. Interactional justice is based on an evaluation of the communication process in business.

The concept of a moral philosophy is not exact; moral philosophies can only be assessed on a continuum. Individuals use different moral philosophies depending on whether they are making a personal or a workplace decision.

According to Kohlberg's model of cognitive moral development, individuals may make different decisions in similar ethical situations because they are in a different stage of moral development. In Kohlberg's model, people progress through six stages of moral development: (1) punishment and obedience; (2) individual instrumental purpose and exchange; (3) mutual interpersonal expectations, relationships, and conformity; (4) social system and conscience maintenance; (5) prior rights, social contract, or utility; and (6) universal ethical principles. Kohlberg's six stages can be further reduced to three levels of ethical concern: immediate self-interest, social expectations, and general ethical principles. Cognitive moral development may not explain as much as people once believed.

White-collar crime occurs when an individual who is educated and in a position of power, trust, respectability, and responsibility commits an illegal act in relation to his or her employment, and who abuses the trust and authority normally associated with the position for personal and/or organizational gains. White-collar crime is not being heavily researched because this type of behavior does not normally come to mind when people think of crime; the offender (or organization) is in a position of trust and respectability; criminology and criminal justice systems look at white-collar crime differently than average crimes; and many researchers have not moved past the definitional issues. New developments in technology seem to be increasing the opportunity to commit white-collar crime with less risk.

Individual factors such as religion, moral intensity, and a person's professional affiliations can influence an employee's decision-making process. The impacts of ethical awareness, biases, conflict, personality type, and intelligence on ethical behavior remain unclear. One thing we do know is that the interrelationships among moral philosophies, values, and business are extremely complex.

IMPORTANT TERMS FOR REVIEW

moral philosophy
economic value orientation
idealism
realism
monist
hedonism
quantitative hedonist
qualitative hedonist
pluralist
instrumentalist
goodness theory
obligation theory
teleology
consequentialism
egoism
enlightened egoism
utilitarianism
rule utilitarian
act utilitarian
deontology
nonconsequentialism
categorical imperative
rule deontologist
act deontologist
relativist perspective
descriptive relativism
metaethical relativism
normative relativism
virtue ethics
justice
distributive justice
procedural justice
interactional justice
Kohlberg's model of cognitive moral development
white-collar crime

RESOLVING ETHICAL BUSINESS CHALLENGES*

Twenty-eight-year-old Elaine Hunt, who is married and has one child, has been with United Banc Corp. (UBC) for several years. During that time, she has seen the company grow from a relatively small to a medium-sized business with domestic and international customers. Elaine's husband, Dennis, is in the import-export business.

The situation that precipitated their current problem began six months ago. Elaine had just been promoted to senior financial manager, which put her in charge of 10 branch-office loan managers, each of whom had five loan officers reporting to him or her. For the most part, the branch loan officers would review their loan officers' numbers, as well as sign off on loans under $250,000. However, recently this limit had been increased to $500,000. Elaine had to sign off on loans over this amount and up to $40 million. For larger loans, a vice president would have to be involved.

Recently, Graphco, Inc., requested a $10 million loan, which Elaine had been hesitant to approve. Graphco was a subsidiary of a tobacco firm embroiled in litigation concerning the promotion of its products to children. When reviewing the numbers, Elaine could not find any glaring problems, yet she had decided against the loan even when Graphco had offered to pay an additional interest point. Some at UBC applauded her moral stance but others did not, arguing that it was not a good decision for a financial business. The next prospective loan was for a Canadian company that was importing cigars from Cuba. Elaine cited the U.S. policy against Cuba as the reason for not approving that loan. "The Helms-Burton Amendment gives us clear guidance on dealings with Cuba," she said to others in the company, even though the loan was to a Canadian firm. The third loan application she was unwilling to approve came from Electrode International, which sought $50 million. The numbers were marginal, but the sticking point for Elaine was Electrode's unusually high profits during the last two years. During dinner with Dennis, she had learned about a meeting in Zurich during which Electrode and others had allegedly fixed the prices on their products. Because only a handful of companies manufactured these particular products, the price increases were very successful. When Elaine suggested denying the loan on the basis of this information, she was overruled. At the same time, a company in Brazil was asking for an agricultural loan to harvest parts of the rain forest. The Brazilian company was willing to pay almost 2 points over the going rate for a $40 million loan. Because of her stand on environmental issues, Elaine rejected this application as well. The company obtained the loan from one of UBC's competitors.

Recently, Elaine's husband's decision making had fallen short of his superior's expectations. First, there was the problem of an American firm wanting to export nicotine and caffeine patches to Southeast Asia. With new research showing both these drugs to be more problematic than previously thought, the manufacturing firm had decided to attempt a rapid-penetration marketing strategy—that is, to price the products very low or at cost in order to gain market share and then over time slightly increase the margin. With 2 billion potential customers, a one-cent markup could result in millions of dollars in profits. Dennis had rejected the deal, and the firm had gone to another company. One person in Dennis' division had said, "Do you realize that you had the perfect product—one that was low cost and both physically and psychologically addictive? You could have serviced that one account for years and would have had enough for early retirement. You're nuts for turning it down!"

Soon afterward, an area financial bank manager wanted Elaine to sign off on a revolving loan for ABCO. ABCO's debt-to-equity ratio had increased significantly and did not conform to company regulations. However, Elaine was the one who had written the standards for UBC. Some in the company felt that Elaine was not quite with the times. Several very good bank staff members had left in the past year because they found her regulations too provincial for the emerging global marketplace. As Elaine reviewed ABCO's credit report, she found many danger signals; the loan was relatively large, $30 million, and the company had been in a credit sales slump. As she questioned ABCO, Elaine learned that the loan was to develop a new business venture within the People's Republic of China, and rumor had it that the company was also working with the Democratic People's Republic of Korea. The biotech venture was for fetal tissue research and harvesting. Recently, attention had focused on the economic benefits of such tissue in helping a host of ailments. Anticipated global market sales for such products were being estimated at $10 billion for the next decade. ABCO also was willing to go almost 2 points above the standard interest equation for such a revolving loan. Elaine realized that if she signed off on this sale, it would signal an end to her standards. However, if she did not and ABCO went to another company for the loan and paid off the debt, she would have made a gross error, and everyone in the company would know it.

As Elaine was wrestling with this problem, Dennis's commissions began to slip, putting a crimp in their cash-flow projections. If things did not turn around quickly for him, they would lose their new home, fall behind on other payments, and reduce the number of educational options for their child. Elaine also had a frank discussion with senior management about her loan standards as well as her stand on tobacco, which had lost UBC precious income. The response was, "Elaine, we applaud your moral courage, but it's negatively impacting the bottom line. We can't have that all the time."

QUESTIONS | EXERCISES

1. Discuss the advantages and disadvantages of each decision that Elaine has made.
2. What are the ethical and legal considerations facing Elaine, Dennis, and UBC?
3. Discuss the moral philosophies that may be relevant to this situation.
4. Discuss the implications of each decision that Elaine could make.

*This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.

CHECK YOUR EQ

Check your EQ, or Ethics Quotient, by completing the following. Assess your performance to evaluate your overall understanding of the chapter material.

1. Teleology defines right or acceptable behavior in terms of its consequences for the individual. **Yes** **No**
2. A relativist looks at an ethical situation and considers the individuals and groups involved. **Yes** **No**
3. A utilitarian is most concerned with bottom-line benefits. **Yes** **No**
4. Act deontology requires that a person use equity, fairness, and impartiality in making decisions and evaluating actions. **Yes** **No**
5. Virtues that support business transactions include trust, fairness, truthfulness, competitiveness, and focus. **Yes** **No**

ANSWERS **1. No.** That's egoism. **2. Yes.** Relativists look at themselves and those around them to determine ethical standards. **3. Yes.** Utilitarians look for the greatest good for the greatest number of people and use a cost–benefit approach. **4. Yes.** The rules serve only as guidelines, and past experience weighs more heavily than the rules. **5. No.** The characteristics include trust, self-control, empathy, fairness, and truthfulness—not competitiveness and focus.