CHAPTER 5

Ethical Decision Making and Ethical Leadership

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

AN ETHICAL DILEMMA*

Bill Church was in a bind. A recent graduate of a prestigious business school, he had taken a job in the auditing division of Greenspan & Company, a fast-growing leader in the accounting industry. Greenspan relocated Bill, his wife, and their 1-year-old daughter from the Midwest to the East Coast. On arriving, they bought their first home and a second car. Bill was told that the company had big plans for him. Thus, he did not worry about being financially overextended.

Several months into the job, Bill found that he was working late into the night to complete his auditing assignments. He realized 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 friends, Ann, how she managed to be so efficient in auditing client records.

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

"I don't understand," said Bill.

"Look," Ann explained, "I had the same problem you have a few years ago, but Mr. Reed [the manager of the auditing department] explained that everyone 'eats time' so that the group shows top results and looks good. And when the group looks good, everyone in it looks good. No one cares if a little time gets lost in the shuffle."

Bill realized that "eating time" meant not reporting all the hours required to complete a project. He also remembered one of Reed's classic catch phrases, "results, results, results." He thanked Ann for her input and went back to work. Bill thought of going over Reed's head and asking for advice from the division manager, but he had met her only once and did not know anything about her.

QUESTIONS • EXERCISES

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

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

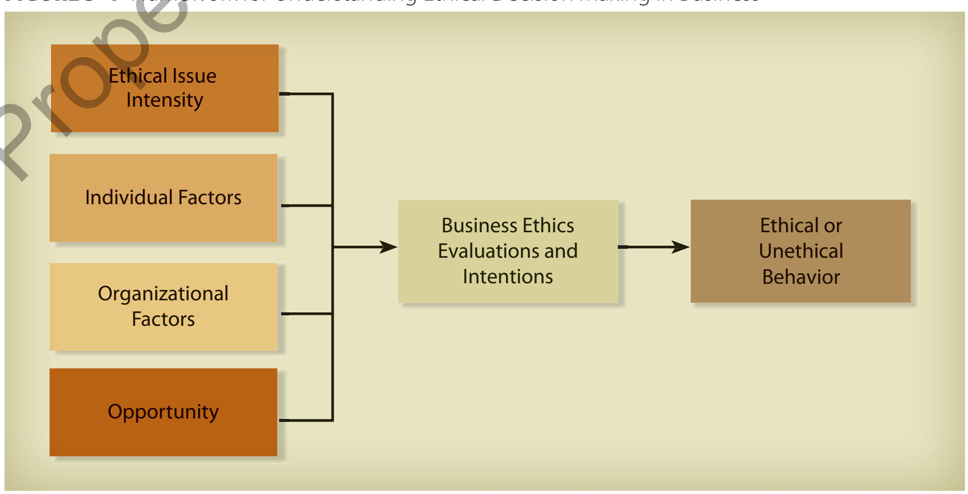
To improve ethical decision making in business, one must first understand how individuals make ethical decisions in an organizational environment. Too often it is assumed that individuals in organizations make ethical decisions in the same way that they make ethical decisions at home, in their family, 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



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. In fact, 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 have a liability formula that judges those who are in positions of authority in regard to their action or inaction regarding the unethical and illegal activities of those around them. 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 in fact 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.[4] Thus, ethical issue intensity involves individuals' cognitive state of concern about an issue, whether or not they have knowledge that an issue is unethical, which indicates their involvement in making choices.

Ethical issue intensity reflects the ethical sensitivity of the individual 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.[5] Additionally, the individual's sense of the situation's moral intensity increases the individual's perceptiveness regarding ethical problems, which in turn reduces his or her intention to act unethically.[6] **Moral intensity** relates to a person's perception of social pressure and the harm the decision will have on others.[7] 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.[8]

For some employees, ethical issues may not reach the critical awareness level if managers fail to identify and educate employees about specific problem areas. Subprime lenders, such as Countrywide Finance, failed to educate brokers about the damages of misrepresenting financial data to help individuals secure loans. Organizations that consist of employees with diverse values and backgrounds must 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. Companies must assess areas of ethical and legal risk that are in reality ethical issues. Issues that are communicated as being 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.[9] Therefore, ethical issue intensity should be considered a key factor in the ethical decision making process.

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. The actions of specific individuals in scandal-plagued companies such as AIG, Countrywide Financial, Fannie Mae, and Freddie Mac often raise questions about those individuals' personal character and integrity. They appear to operate in their own self-interest or in total disregard of the law and interests of society. Fannie Mae has become one of the high-profile figures in the 2008–2009 financial meltdown. It is a stockholder-owned corporation created to purchase and securitize mortgages, and was a key figure in the subprime mortgage debacle.[10] Many people granted mortgages by Fannie Mae were not strong candidates to receive mortgages, and their homes have since been foreclosed. Civil charges had already been filed against Fannie Mae's CEO, CFO, and the former controller, who allegedly manipulated earnings to increase their bonuses. CEO Daniel Mudd was also investigated for lying to investors about earnings. Bad decisions and managerial misconduct clearly contributed to the company's downfall.[11]

> *"The more likely individuals are to perceive an ethical issue as important, the less likely they are to engage in questionable or unethical behavior."*

In the workplace, personal ethical issues typically involve honesty, conflicts of interest, discrimination, nepotism, and theft of organizational resources. For example, many individuals use the company computer system for several hours of work time a day for personal reasons. Most employees limit the use of their work time for personal use, and most companies probably overlook these as reasonable. Some employees, however, use times in excess of 30 minutes for personal Internet communications, which companies are likely to view as an excessive use of company time for personal reasons. The decision to use company time for personal affairs is an example of an ethical decision. It illustrates the fine line between what may be acceptable or unacceptable in a business environment. It also reflects how well an individual will assume responsibilities in the work environment. Often this decision will depend on company policy and the corporate environment.

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.[12] 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.[13] As more and more women work in managerial positions, these findings may become increasingly significant.

Education, the number of years spent in pursuit of academic knowledge, 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 within a specific job, occupation, and/or industry. Generally, the more education or work experience that one has, the better he or she is at ethical decision making. The type of education 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.[14]

Nationality is the legal relationship between a person and the country in which he or she is born. Within 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, the true effect is somewhat hard to interpret.[15] Because of cultural differences, it is impossible to state that ethical decision making in an organizational context will differ significantly. The reality of today is that multinational companies look for businesspeople who can make decisions regardless of nationality. Perhaps in twenty years, nationality will no longer be an issue in that the multinational's culture will replace the 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.[16] We do believe that older employees with more experience have greater knowledge to deal with complex industry-specific ethical issues.

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 where 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's 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 related whereas externals were negative.[17] 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.[18] 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. 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.

"The more ethical employees perceive an organization's culture to be, the less likely they are to make unethical 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 Company, 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 Company 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 thus 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 McDonald's, 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, the **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. 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.[19]

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 related 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.[20]

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.[21] 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.[22]

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; the bigger the company, the more potential for unethical activities.[23]

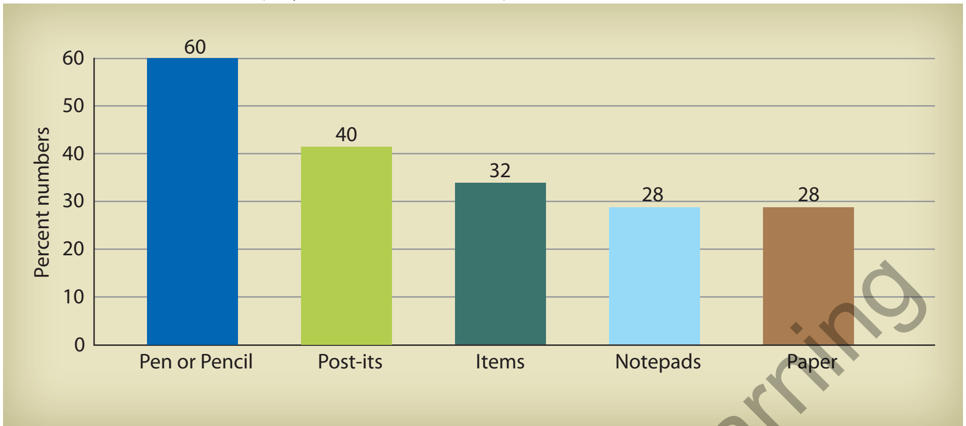
Opportunity

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. Rewards are external to the individual to the degree that they bring 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 in the future, 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, then the opportunity to engage in these activities exists if there is a failure to report and respond to this conduct.[24]

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, the negative reinforcements. The United States Chamber of Commerce reports that 75 percent of employees steal from their workplaces, and most do so repeatedly.[25] As Figure 5–2 shows, many employees pilfer office-supply rooms for matters unrelated to the job. It is possible that the opportunity is provided, and in some cases, there are no concerns if employees take pens, Post-its, envelopes, notepads, and paper. Respondents to the survey by Vault.com indicated that 25 percent felt that no one cared if they took office supplies, 34 percent said that they never

FIGURE 5–2 Items that Employees Pilfer in the Workplace



Source: "Top Items Employees Pilfer," the most popular items employees take from office-supply rooms for matters unrelated to the job. Vault's office survey of 1,152 respondents. In Snapshots, *USA Today*, March 29, 2006, B1.

got caught, and 1 percent said that they were caught and got in trouble. 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 opportunity 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 example, financial companies—such as banks, savings and loan associations, and securities companies—have developed elaborate sets of rules and procedures to avoid the opportunity for individual employees to manipulate or take advantage of their trusted position. 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 diversion of funds. This rule prevents the opportunity for inappropriate conduct. Even after audits by prestigious accounting firm PricewaterhouseCoopers, the founder and chairman of one of India's largest technology companies, Satyam Computer Services Ltd., admitted he invented financial results, including a fictitious cash balance of more than $1 billion. He was able to overstate profits and understate liabilities. This was allowed to happen, even though Satyam had independent directors, including a Harvard business school professor, on its board. The question is: How did the CEO manage to blatantly manipulate financial information without anyone catching on? There had to be loopholes in the oversight of the company's accounting, audits, and corporate governance that allowed this fraud. In addition, government regulation of financial reporting allowed the opportunity for misconduct. To avoid situations like this in the future, there must be checks and balances that create transparency.[26]

Opportunity also comes from knowledge. Major misconduct observed among employees in the workplace include lying to employees, customers, vendors, or the public or withholding needed information from them.[27] A person who has an information base, 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. This 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 in order to deal with a specific supplier. When the president of the firm learned that one of his buyers had taken a bribe, he immediately traveled to that buyer's office 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.

Business Ethics Evaluations and Intentions

Ethical dilemmas involve problem-solving situations in which decision rules are often vague or in conflict. The results of an ethical decision are often uncertain; no one can always tell us whether we have made the right decision. There are no magic formulas, nor is there computer software that ethical dilemmas can be plugged into for a solution. Even if they mean well, most businesspeople will make ethical mistakes. Thus, 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 situational factors by quitting. 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. That too 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 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 principles must be balanced with business knowledge and 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.

THE ROLE OF LEADERSHIP IN A CORPORATE CULTURE

Top managers provide a blueprint for what a firm's corporate culture should be.[28] 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. However, one poll found that less than half (47 percent) of employees in large (2,500 employees or more) organizations think that the senior leadership in their firm is highly ethical.[29]

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 on not only shareholders and employees but also other important stakeholders.[30] Therefore, when we discuss leadership, we include the 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 have not only his or her followers' respect but also provide a standard of ethical conduct to them. Former chairman of Korean electronics giant Samsung Group, Lee Kun-hee, resigned in disgraced 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 final in a long string of corruption charges against Lee. He was also convicted of bribery 10 years ago. Since his resignation, the company has sought to improve its image.[31] Table 5–1 summarizes the steps executives should take to demonstrate that they understand the importance of ethics in doing business.

TABLE 5–1 The Managerial Role in Developing Ethics Program Leadership

1. Organizational commitment from board of directors and top management
2. 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 transmittal and monitoring of values, norms, and codes of ethics.[32] In short, the leadership style of an organization influences how its employees act. For example, the management philosophy of Mike Armstrong, former CEO of AT&T, is characterized by the observations of its lab's chief, David Nagel: "Most bosses hate conflict. Mike is delighted when he sees us getting at each other." Armstrong has been characterized as scary, demanding, a taskmaster, and a maniac—in an affectionate way. The fast-paced, intensely competitive telecommunications industry requires a "nontraditional" leadership style to achieve success.[33] Studying a firm's leadership styles and attitudes can also help 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 resolve the issue.

> *"The ethical leadership concept is not only for CEOs, boards of directors, and managers but can also be fellow employees."*

Although we often think of CEOs and other top managers as the most important leaders in an organization, a firm's board of directors is also a required leadership and an oversight component. The ethical leadership concept is not only for CEOs, boards of directors, and managers but can also be fellow employees. Ethical leadership by the CEO requires an understanding of the firm's vision and values, as well as the challenges of responsibility and the risk 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 college of business 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 or, in other words, do in private as if it were always public. This type of integrity relates to values and is discussed in later chapters. They 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 choose a balance of all involved today as well as in the future. Such a person must be concerned with shareholders as well as the lowest-paid employee. Experience shows that no leader can always be right or judged ethical by stakeholders in every case. The acknowledgment of this 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.[34]

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 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.[35] 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 provide agreement on how to deal with 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.[36]

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. 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 in order 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.[37]

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.*[38] We have adapted Carroll's "7 Habits of Highly Moral Leaders"[39] 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 decision. Strong ethical leaders have both the courage and the most complete information to make decisions that will be the 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, and Steve Jobs, as well as 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, Wal-Mart embarked on a course of rapid growth after his death and became involved in numerous conflicts with various stakeholder groups, especially employees, regulators, competitors, and communities. Despite the ethical foundation left by Sam Walton, Wal-Mart, as well as most large corporations, deals with hundreds of reported ethical lapses every month.[40]

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.**

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 "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.[41] 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 them 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."[42] Having a passion to do right indicates a personal characteristic of not only recognizing the importance of ethical behavior but also 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. 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."[43]

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.[44] 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 2009, office furniture maker Herman Miller is also known for its highly ethical culture. *Fortune* also has ranked it the Most Admired Company in its industry for the past 20 years. Its strong ethical culture has placed Herman Miller at the top of the Human Rights Campaign's Corporate Equality Index for years. Additionally, the company ranks as one of the safest, coolest, and most ethical companies in its industry.[45] Strong leadership is key in maintaining such 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 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."[46]

Ethical leaders have the responsibility to balance stakeholder interests to ensure that the organization maximizes its role as a responsible corporate citizen. In addition to being one of the world's most admired companies, according to *Fortune* magazine, Xerox has taken significant strides toward reducing its environmental impact, increasing social responsibility, and improving diversity. Xerox is the largest document management and technology company in the world with sales of over $17.6 billion annually, and as such a large company it produces a lot of waste every day. Xerox is aware of its carbon footprint and has produced such innovations as erasable paper to be used in testing machines so that the company does not throw away so much paper each day. The company also aims to be carbon neutral and tries to source its paper from sustainable sources.[47] The company also recently celebrated some significant diversity milestones. In 2009 Ursula Burns became the first African American female to be the CEO of a major American company, and Xerox was the first major company in history to have a female-to-female CEO sucession.[48] The company also extends its commitment to diversity to suppliers as well, because its own research has found that minority and women-owned businesses often have higher standards.[49]

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.[50] Firms such as Countrywide Financial articulated core values that were only used as 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 such efforts as recycling and reducing energy whenever possible. Whole Foods donates a minimum of 5 percent of profits to local communities in which it operates. Especially in a time of repeated food contamination scares, many people are drawn to grocers like Whole Foods because of its high quality standards, educational initiatives, and close relationships with many of its suppliers.[51]

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 June 5, 2009).

Ethical Leaders Are Transparent and Actively Involved in Organizational Decision Making

Being transparent fosters openness, freedom to express ideas, and the ability to question conduct, and it 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 said 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 Corporation, 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 (1) tell the whole truth, (2) build a values-based culture, and (3) hire "people people."[52]

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. Although his company is called Waste Management, CEO David P. Steiner is as committed to renewable energy as just about anyone working for a multibillion dollar business. Steiner was selected as one of the 100 Most Influential People in Business Ethics by the Ethisphere Institute in 2007, and his company, Waste Management, was chosen as one of the World's Most Ethical Companies in 2008.[53] Steiner likes to point out that Waste Management produces more renewable energy than the entire U.S. solar industry. In fact, nearly half of the company's revenues come from "green" services.[54] Steiner's personal commitment to social responsibility and sustainability has dramatically changed a company that was previously known primarily as a garbage collection service.

The challenge of being an effective leader is illustrated in Table 5–4. Most senior executives believe that it is much more challenging to be a leader in today's business environment compared to five years ago. Leadership continues to be one of the most important drivers of ethical conduct in organizations.

TABLE 5–4 Leadership Is More Challenging in Today's Business Environment

Do you think it is more or less challenging to be a company leader in today's business environment compared with five years ago?	
More challenging	89%
No change	9%
Less challenging	1%
Don't know	1%

Source: Robert Half Management Resources poll of 150 senior executives at companies with revenue of $1 billion to $40 billion. In *USA Today,* March 6, 2006, B1.

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 that an individual or work group 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 the individual or work group. It reflects the ethical sensitivity of the individual or work group that triggers the ethical decision process. Other factors in our ethical decision making framework influence this sensitivity, thus determining why 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 individual relationships of 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.

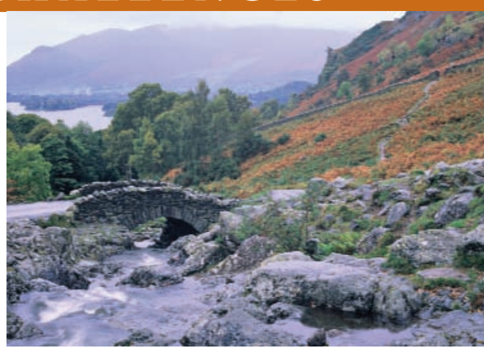
The ethical decision making framework is not a guide for making decisions. It is intended to provide insights and knowledge about typical ethical decision making processes in business organizations. Ethical decision making within organizations does not rely strictly on the personal values and morals of employees. Organizations have a culture 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**
- **moral intensity**
- **gender**
- **education**
- **nationality**
- **locus of control**
- **external control**
- **internal control**
- **corporate culture**
- **ethical culture**
- **significant other**
- **obedience to authority**
- **opportunity**
- **immediate job context**
- **leadership**
- **transactional leader**
- **transformational leader**

RESOLVING ETHICAL BUSINESS CHALLENGES*



Peter had been a human resource (HR) manager for 18 years and vice president for 2 more years for 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. Frankly, the situation Peter was in was partly his own fault.

The first issue began with Hurricane Katrina. In its wake, Zyedego employees had been working around the clock to get the company up and running again. The company had been calling all employees (if they could locate them) to get them to return to work. Gwyn, one of Peter's HR managers, was planning on rehiring Dana Gonzales but found out that Dana was pregnant. Because of the "rough" condition of the workplace, Gwyn was concerned for Dana's safety. Gwyn felt that if Dana were rehired, employees' hourly wages should be decreased by 25 percent because the company had experienced setbacks during the hurricane and had to work with a reduced budget. In addition, Gwyn had some concerns over Dana's citizenship because her passport appeared to be questionable. The flooding destroyed the original documents, and although Gwyn requested new documents, Dana had been slow in providing them. Gwyn had asked some difficult questions, and Dana stated that if not rehired 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 issue is the hiring of truck drivers. Zyedego hires many truck drivers and routinely requests driving records as part of the preemployment process. Several of the potential new hires have past DWI records. All have stated that they would never do it again, have maintained a clean record for at least five years, and understand the consequences of another infraction. Gwyn has hired some drivers with infractions to secure the necessary number of drivers needed for the company. However, Gwyn has some concerns over whether she is exposing the company to unnecessary risk because of the increased potential for accidents or repeat DWI violation. From Peter, Gwyn needs guidance related to continuing these hiring practices.

However, Zyedego has even deeper problems, which is what concerns 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. He was married with two children, and had a mortgage. A little over a year ago, Guy separated from his wife, and they 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 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 destroyed in the storm.

The storm really began for Peter late last week when he met with the insurance company about medical reimbursements, death benefits, and the 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 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," exclaimed 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

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

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. 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. In addition, 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. The downside to promoting Liz, though, 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. The reason why Roy has been passed over before was 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 in the past. This promotion would be his last before retirement, and many in the company feel that 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 that for some reason did not like dealing with Quang.

Moreover, Quang sued her previous employer for discrimination and won. A comment that Lael heard from that company was 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. The ethical decision making model that was described in Chapter 5 placed the individual moral perspectives as a central component in making an ethical decision. In this chapter, we provide a detailed description and analysis of how individuals' backgrounds and philosophies influence their decisions. It is important to determine when one action is right and when another is viewed as wrong, and individual moral philosophies are often used to justify decisions or explain 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, a discussion of the stages of cognitive development as they relate to these moral philosophies and their shortcomings is addressed. Finally, we examine white-collar crime as it relates to moral philosophies and personal values.

MORAL PHILOSOPHY DEFINED

When people talk about philosophy, they usually mean the general system of values by which they live. **Moral philosophy**, on the other hand, refers in particular to the specific principles or rules that people use to decide what is right or wrong. It is important to understand the distinction between moral philosophies and business ethics. A moral philosophy is a person's principles and values that define what is moral or immoral. Moral philosophies are person-specific, whereas business ethics is based on decisions in groups or those made when carrying out tasks to meet business objectives. In the context of business, ethics refers to what the group, firm, or strategic business unit (SBU) defines as right or wrong actions pertaining to its business operations and the objective of profits, earnings per share, or some other financial measure of success as defined by the group. For example, a production manager may be guided by a general philosophy of management that emphasizes encouraging workers 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," guiding businesspeople as they formulate business strategies and resolve specific ethical issues.[1] However, there is no single moral philosophy that everyone accepts. Some managers, for example, view profit as the ultimate goal of an enterprise and therefore may not be concerned about the impact of their firms' decisions on society. As we have seen, 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. The United States has been actively exporting the idea that the invisible hand of free market capitalism can solve the troubles of mankind and lead toward greater happiness and prosperity. Such happiness is derived from 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 be a panacea- For example, empirical research and a study of history show that excessive consumption can have negative effects and may be psychologically, spiritually, and physically unhealthy.[3] In other words, more is not necessarily best.

Adam Smith is considered the father of free market capitalism. He was a professor of logic and moral philosophy and wrote the seminal "The Theory of Moral Sentiments" 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 men. But in the eighteenth century, Smith could not image the complexity of modern markets or the size of multinationals, nor could he fathom the concept that four or five companies could gain control of the vast majority of the resources of the world. His ideas did not take into account the full force of democracy, nor the immense wealth and power some firms wield within countries.

Economic systems not only allocate resources and products within a society but also affect individuals and society as a whole. Thus, the success of an economic system depends both on 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. Going back to Aristotle, there is a long Western tradition of questioning whether a market economy and individual moral behavior are compatible. In reality, individuals in today's society exist within the 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, most of which are 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 often 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 decision.

Moral philosophies are ideal moral perspectives that provide individuals with abstract principles for guiding their social existence. For example, individuals' decisions to recycle waste or to purchase or sell recycled or recyclable products are influenced by moral philosophies and attitudes toward recycling.[4] Thus, it is often difficult to implement an individual moral philosophy within the complex environment of a business organization. On the other hand, the functioning of our economic system depends on individuals coming together and sharing philosophies that create the moral values, trust, and expectations that allow the system to work. Most employees within a business organization do not think about what particular moral philosophy they are using when they are confronted with an ethical issue. Individuals learn decision making approaches or philosophies through their cultural and social development.

Many theories associated with moral philosophies refer to a value orientation and such things as economics, idealism, and relativism. The concept of the **economic value orientation** is associated with values that can be quantified by monetary means; thus, according to this theory, if an act produces more value than 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, in comparison with the world's view. The term refers to efforts to account for all objects in nature and experience and assign to such representations a 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 work under the assumption that humankind is not inherently benevolent and kind but instead is inherently self-centered and competitive. According to realists, each person is always ultimately guided by his or her own self-interest. Research shows a negative correlation between realistic thinking and ethical decision making. Thus, the belief that all actions are ultimately self-motivated leads to a tendency toward negative ethical decision making.

MORAL PHILOSOPHIES

There are many moral philosophies, but because a detailed study of all moral philosophies is beyond the scope of this book, we 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. 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 on the Richter scale will occur somewhere along the New Madrid Fault by the year 2020. 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. Thus, 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, nor do we 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 theories (see Table 6–1).

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.**

Goodness—Instrumental and Intrinsic

To appreciate moral philosophy, one must understand the differing perspectives of goodness. Are there clearly defined goods and bads and, if so, what is the relationship between the ends and the means of bringing them about? Is there some intrinsic way of determining 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 emphasized means and motivations to argue that goodwill, seriously applied toward accomplishment, is the only thing good in itself.

Two basic concepts of goodness are monism and pluralism. **Monists** believe that only one thing is intrinsically good, and the pluralists believe that two or more things are intrinsically good. Monists are often exemplified by **hedonism**—that one's pleasure is the ultimate intrinsic good or that the moral end, or goodness, is 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 nonhedonists, take the opposite position that no *one* thing is intrinsically good. For example, a pluralist might view other ultimate goods as beauty, aesthetic experience, knowledge, and personal affection. 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 nonhedonists, it is important to note that all monists are not necessarily hedonists. An individual can believe in a single intrinsic good other than pleasure; Machiavelli and Nietzsche, for example, each held power to be the sole good, and Kant's belief in the single virtue of goodwill classifies him as a monistic nonhedonist.

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

So how does this discussion equate to business? Isn't business about shareholder wealth and the wealth of executives? To measure success in business is to measure monetary wealth . . . right? To answer this question, let's go back to 1923 when a meeting was held at the Edgewater Beach Hotel in Chicago. Attending this meeting were nine of the richest men in the world: (1) Charles Schwab, president of the world's largest independent steel company; (2) Samuel Insull, president of the world's largest utility company; (3) Howard Hopson, president of the world's largest gas firm; (4) Arthur Cutten, the greatest wheat speculator; (5) Richard Whitney, president of the New York Stock Exchange; (6) Albert Fall, member of the president's cabinet; (7) Leon Fraizer, president of the Bank of International Settlements; (8) Jessie Livermore, the greatest speculator in the stock market; and (9) Ivar Kreuger, head of the company with the most widely distributed securities in the world. Twenty-five years later, (1) Charles Schwab had died having lived on borrowed money for the last five years of his life, (2) Samuel Insull had died a penniless fugitive,

(3) Howard Hopson had gone insane, (4) Arthur Cutten had died bankrupt, (5) Richard Whitney had spent time in prison, (6) Albert Fall had been pardoned from prison so that he could die at home, and (7) Leon Fraizer, (8) Jessie Livermore, and (9) Ivar Kreuger had committed suicide. Measured by wealth and power, these men had achieved success, at least temporarily. So this begs the question of whether money guarantees happiness; in other words, do the ends always justify the means?

A discussion of moral value often revolves around the nature of goodness—instrumental or intrinsic. Theories of moral obligation, by contrast, change the question to "What makes a given action right or obligatory?" **Goodness theories** typically focus on the *end result* of actions and the goodness or happiness created by them, whereas **obligation theories** emphasize the *means* and *motives* by which actions are justified. These obligation theories are teleology and deontology, respectively.

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. In other words, 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.

> *"Teleological philosophies assess the moral worth of a behavior by looking at its consequences"*

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. The egoist's creed generally can be stated as "Do the act that promotes the greatest good for oneself." Many believe that egoistic people and companies are inherently unethical, are short-term oriented, and will take advantage of any opportunity. For example, some telemarketers demonstrate this negative tendency 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 of their savings and sometimes their homes.

However, there is also **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 helping a turtle across a highway because, if killed, the person would feel distressed. To feel good, or eliminate the chance of a feeling of distress, the person helps the turtle to cross the road.[5] Enlightened egoists may, for example, 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 goal for the egoist, such as advancement within the firm. 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, some enlightened egoists may become whistle-blowers and report misconduct to a government regulatory agency to keep their job and 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, International Business Machines (IBM) has a policy of donating or reducing the cost of computers to educational institutions. In exchange, the company receives tax breaks for donations of equipment, which reduces the cost of its philanthropy. 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 probably choose the alternative that maximizes his own self-interest. If he defines 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, rationalizing that there is a slim chance of an earthquake, that bolts would not be a factor in a major earthquake, and that, even if they were, no one would be able to prove that defective bolts 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 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,* that achieve the greatest benefit for all those affected by a decision. An argument for utilitarianism may be President Obama's 2009 economic stimulus package. Its costs to the American taxpayer may have been weighted against the greater costs of allowing the market to fall into a depression without government intervention.

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, establishing a strict standard for harassment on the job. One of the justices indicated in the ruling that the employer's burden to prevent harassment is "one of the costs of doing business."[6] Apparently, the Court has decided that the greatest utility to society will result from forcing businesses to prevent harassment.

In evaluating an action's consequences, some utilitarians consider the effects on animals as well as on human beings. This perspective is especially significant in the controversy surrounding the use of animals for research purposes by cosmetics and pharmaceutical companies. Animal rights groups have protested that such testing is unethical because it harms and even kills the animals, depriving them of their rights. Researchers for pharmaceutical and cosmetics manufacturers, however, defend animal testing on utilitarian grounds. The consequences of the research (such as new or improved drugs to treat disease, or safer cosmetics) create more benefit for society, they argue, than would be achieved by halting the research and preserving the animals' rights. Nonetheless, many cosmetics firms have responded to the controversy by agreeing to stop animal research.

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 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 bolts it produced 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.

Utilitarians use various criteria to judge the morality of an action. Some utilitarian philosophers have argued that general rules should be followed to decide which action is best.[7] These **rule utilitarians** determine behavior on the basis of principles, or rules, designed to promote the greatest utility rather than on an examination of each particular situation. 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 would adhere strictly to the rule. Rule utilitarians do not automatically accept conventional moral rules, however; thus, if they determined that an alternative rule would promote greater utility, they would advocate changing it.

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.[8] These **act utilitarians** examine a specific action itself, rather than the general rules governing it, to assess whether it 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.[9] 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; moreover, 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. Another example may be found in the actions of farmers in China who use toxic melamine to increase milk quality. Melamine's chemical properties boost the apparent presence of protein in food. Manufacturers of melamine, an industrial chemical used in plastics, say they had noticed a rising demand for their factories' scrap. Actual protein powders are also prohibited from being added to raw milk. They are made from ground animal parts, soy, and other sources. China's biggest local seller of liquid milk, Nestlé SA, said it was aware that Chinese farmers and traders added unauthorized substances to raw milk, but that it didn't know melamine was among them. Among other common milk additives: a viscous yellow liquid containing fat and a combination of preservatives and antibiotics, known as "fresh-keeping liquid" is "very common" and hard to detect. It can be argued that everyone within the milk supply chain saw their actions as helping more people financially rather than harm them from the unknown dangers of the additives.[10]

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 on 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 a person, no matter how much greater social utility might result from doing so, because such an action would infringe on that person's rights as an individual. The utilitarian, however, might consider as acceptable an action that resulted in a person's death if that action created some greater benefit. Deontological philosophies regard certain behaviors as inherently right, and the determination of this rightness focuses on the individual actor, not society. Thus, these perspectives are sometimes referred to as **nonconsequentialism** an ethics based on *respect for persons.*

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

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."[11] 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. For example, if a person borrows money, promising to return it but with no intention of keeping that promise, he or she cannot "universalize" that 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.[12] Therefore, 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:

- Freedom of conscience
- Freedom of consent
- Freedom of privacy
- Freedom of speech
- Due process[13]

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 clarify the difference between teleology and deontology. In short, 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 obliged 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 likely inform the bridge contractor of the defect rate and point out the earthquake risk, even though, by doing so, he would probably lose the sale.

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 determines ethicalness. Deontological philosophies use reason and logic to formulate rules for behavior. 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 both financially and socially, Wigand testified to Congress about the realities of marketing cigarettes and their effects on society.[14]

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 other indecency or pornography aspects of his business. Indeed, the free-speech argument has held up in many 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.[15] An example of rule deontology is Kellogg's president, David Mackay. After hearing about possible salmonella contamination in peanut butter, he encouraged supermarkets not to sell Kellogg's products using peanut butter until the source of the contamination was discovered and peanut butter was deemed safe again.

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.[16] For act deontologists, as for act utilitarians, rules serve only as guidelines, with past experiences weighing more heavily than rules upon the decision making process. In effect, act deontologists suggest that people simply *know* that certain acts are right or wrong, regardless of the consequences or any appeal to deontological rules. In addition, act deontologists regard the particular act or moment in time as taking precedence over any rule. For example, many people view data collection by Internet sites as a violation of personal privacy in itself. 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.[17] A high school teacher at Hoover High in Alabama purportedly lost her job because she refused to change a football player's grade. It would have been much easier for her to do as others had done, yet the philosophy she used was within the act deontologist's range.[18] Current research suggests that rule and act deontological principles play a larger role in a person's decision than teleological philosophies.[19]

As we have seen, ethical issues can be evaluated from many different perspectives. Each type of philosophy discussed here would have a distinct basis for deciding whether a particular action is 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.* All would agree that there is no one "right" way to make ethical decisions and no best moral philosophy except their own. 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, or normative.[20] **Descriptive relativism** relates to observing cultures. We may observe that different cultures exhibit different norms, customs, and values and, in so doing, arrive at a factual description of a culture. These observations say nothing about the higher questions of ethical justification, however. At this point metaethical relativism comes into play.

Metaethical relativists understand that people naturally see situations from their own perspectives and argue that, as a result, there is no objective way of resolving ethical disputes between value systems and individuals. Simply put, one culture's moral philosophy cannot logically be preferred to another because there exists no meaningful basis for comparison. Because ethical rules are relative to a specific culture, the values and behaviors of people in one culture need not influence the behaviors of people in another culture.[21] At the individual level of reasoning, we have **normative relativism**. Normative relativists assume that one person's opinion is as good as another's.[22]

"Normative relativists assume that one person's opinion is as good as another's."

Basic relativism acknowledges that we live in a society in which people have many different views and bases from which to justify decisions as right or wrong. The relativist looks to the interacting 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, for example, would signify that the group considers the action to be right or 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 been gaining acceptance among accountants. This shift in ethical views may have come about as a result of the steady 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, an informal consensus has emerged in the accounting industry that advertising is now acceptable. A problem with relativism is that it places too much emphasis on peoples' differences while ignoring their basic similarities. Similarities within different people and cultures—such as beliefs against incest, murder, and theft or promoting reciprocity and respect for the elderly—are hard to argue away and hard to explain from the relativist perspective.

In the case of the Midwest Hardware salesperson, if he were a relativist, he would attempt to determine the group consensus before deciding whether to tell his prospective customer about the bolts' defect rate. The relativist Sam Colt would look at both his own company's policy and at the general industry practice. He might also informally survey his colleagues and superiors as well as consulting 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 general company policy, as well as industry practice, is to discuss 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 would probably then 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 to not inform customers about defect rates, he would probably not raise the subject with the bridge contractor.

Empirical research into the general concept of relativism suggests that it is negatively related to a person's ethical sensitivity to issues. Thus, if someone scores high on relativism, he or she will probably be less likely to detect or be sensitive to issues that are defined by others as having an ethical component.[23]

Virtue Ethics

A moral virtue represents an acquired disposition that is valued as a part of an individual's character. As an individual develops socially, he or she may become disposed to behave in the same way (in terms of reasons, feelings, and desires) as what he or she considers to be moral.[24] A person who has the character trait of honesty will be disposed to tell the truth because it is considered to be right and comfortable. This individual will always try to tell the truth because of its importance in human communication. A virtue is considered praiseworthy because it is an achievement that an individual develops through practice and commitment.[25]

This philosophy is called **virtue ethics**, and it posits that what is moral in a given situation is not only what conventional morality or moral rules (current societal definitions) require but also what the mature person with a "good" moral character would deem appropriate.

Proponents of virtue ethics frequently discuss lists of basic goods and virtues, which are generally presented as positive and useful mental habits or cultivated character traits. Aristotle named, among others, standards of loyalty, courage, wit, community, and judgment as the "excellences" that society requires. While listing the important virtues is a popular theoretical task, the philosopher Dewey cautions that virtues should not be looked at separately. The pluralism of virtues gives the businessperson a positive character and constitutes the very best idea of integrity of character. The virtue ethics approach to business can be summarized as follows:

1. Individual virtue and integrity count, but good corporate ethics programs encourage individual virtue and integrity.
2. By the employee's role in the community (organization), these virtues associated with appropriate conduct form a good person.
3. The ultimate purpose is to serve society's demands and the public good and to be rewarded in one's career.
4. The well-being of the community goes together with individual excellence because of the social consciousness and public spirit of every individual.[26]

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 what current societal moral rules require may indeed be the moral minimum for the beginning of virtue. The viability of our political, social, and economic systems depends on the presence of certain virtues among the citizenry that are vital for the proper functioning of a market economy.[27]

Indeed, virtue theory could be thought of as a dynamic theory of how to conduct business activities. The virtue ethicist believes that to have a successful market economy, society must be capable of carving out sanctuaries such as family, school, church, and community, where virtues can be nurtured. These virtues, including truth, trust, tolerance, and restraint, can play a role in the functioning of an individualistic, contractual economy and create obligations that make social cooperation possible. The operation of a market economy based on virtues provides a traditional existence where individuals in the economic system have powerful inducements to conform to prevailing standards of behavior. Some philosophers think that virtues may be weakened by the operation of the market, but virtue ethicists believe that institutions and society must maintain a balance and constantly add to their stock of virtues.[28] Some of the virtues that could drive a market economy are listed in Table 6–2; the list, although not comprehensive, provides examples of the types of virtues that support the business environment.

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	Trust eliminates the need for and associated cost of monitoring compliance with agreements, contracts, and reciprocal agreements. 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. It indicates the ability to avoid exploiting a known opportunity for self-interest	The trade-off is between short-term self-interest and long-term benefits.
Empathy: The ability to share the feelings or emotions of others	Empathy 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	Fairness 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	Telling the truth involves avoiding deception and contributes to trust in business relationships.
Learning: The disposition to constantly acquire knowledge internal and external to the firm, whether of an industry, culture, or other societies	Learning involves gaining knowledge to make better, more informed decisions.
Gratitude: A sign of maturity that is the beginning of civility and decency	Gratitude is the recognition that people do not succeed alone.
Civility: The disposition or essence of courtesy, politeness, respect, and consideration for others	Civility 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, heart, and happiness in life	Moral leadership is a trait of those 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).

The elements of virtue that are important to business transactions have been defined as trust, self-control, empathy, fairness, and truthfulness. Attributes in contrast to virtue would include lying, cheating, fraud, and corruption. In their broadest sense, these concepts appear to be accepted within all cultures. The problem of virtue ethics comes in its implementation within and between cultures, as those who practice virtue ethics go beyond social norms. 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. Some employees might view this truthful employee as highly ethical but, in order to rationalize their own behavior, judge his or her ethics as going beyond what is required by their job or society. They might argue that virtue is an unattainable goal and thus one should not be obliged to live up to its standards. However, to those who espouse virtue ethics, this relativistic argument is meaningless because they believe in the universal reality of the elements of virtue.

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

Justice

Justice as it is applied in business ethics involves evaluations of fairness or the disposition to deal with perceived injustices of others. Justice is fair treatment and due reward in accordance with ethical or legal standards. In business, this means that the decision rules used by an individual to determine the justice of a situation could be based on the perceived rights of individuals and on the intentions of the people involved in a given business interaction. For that reason, justice is more likely to be based on deontological moral philosophies than on teleological or utilitarian philosophies. In other words, justice deals more with the issue of what individuals feel they are due based on their rights and performance in the workplace. For example, the U.S. Equal Employment Opportunity Commission exists to help employees who suspect they have been unjustly discriminated against in the workplace.

Three types of justice provide a framework for evaluating the fairness of different situations (see Table 6–3). **Distributive justice** is based on the evaluation of the outcomes or results of the business relationship. If some employees feel that they are paid less than their coworkers for the same work, then they have concerns about distributive justice. Distributive justice is difficult to develop 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 seen as unjust because he is taking advantage of his position to redistribute the workers under him. Situations such as this cause an imbalance in distributive justice.

Procedural justice is based on the processes and activities that produce the outcome or results. Evaluations of performance that are not consistently developed and applied can lead to problems with procedural justice. For instance, employees' concerns about inequitable compensation would relate to their perception that the processes of fairness or justice in their company were inconsistent. A climate that emphasizes procedural justice is expected to positively influence employees' attitudes and behaviors toward work-group cohesion. The visibility of supervisors and the work group's perceptions of its own cohesiveness

TABLE 6–3 Types of Justice

Justice Type	Evaluations of Fairness
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 an evaluation of the communication process used in the business relationship	Accuracy of information Truthfulness, respect, and courtesy in the process

are products of a climate of procedural justice.[29] 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.[30] For example, Wainwright Bank and Trust Corporation in Boston has made a commitment to promoting justice to all stakeholders by providing a "sense of inclusion and diversity that extends from the boardroom to the mail room."[31] The bank, in other words, uses methods of procedural justice to establish positive stakeholder relationships by promoting understanding and inclusion in the decision making process.

Interactional justice is based on evaluating the communication processes used in the business relationship. Because interactional justice is linked to fairness in communication, it often involves the individual's relationship with the business organization through the accuracy of the information the organization provides. Employees can also be guilty in 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. Being untruthful about the reasons for missing work is an example of an interactional justice issue.

All three types of justice—distributive, procedural, and interactional—could be used to evaluate a single business situation and the fairness of the organization involved. In the example of Sam Colt, Sam's decision to implement a justice perspective would be identical to using a deontological moral philosophy. That is, he would feel obligated to tell all affected parties about the bolt defect rate and the possible consequences of it. In general, justice evaluations result in restitution seeking, relationship building, and evaluations of fairness in business relationships.

APPLYING MORAL PHILOSOPHY TO ETHICAL DECISION MAKING

Strong evidence shows that individuals use different moral philosophies depending on whether they are making a personal decision outside the work environment or making a work-related decision on the job.[32] Two possible reasons may explain this. 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" in the nonwork environment. It is often suggested that business managers are morally different from other people. In a way, this is correct in that business has one variable that is absent from other situations: the profit motive. The weights on the various factors that make up a person's moral philosophy are shifted in a business (profit) situation. The statement "it's not personal, it's just business" demonstrates the conflict businesspeople can have 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. This should not be construed to 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 could be the corporate culture where they work. When a child enters school, for example, he or she learns certain rules such as raising your hand to speak or asking permission to use the restroom. So it is with a new employee. Rules, personalities, and historical precedence exert pressure on the employee to conform to the new firm's culture. As this occurs, the individual's moral philosophy may change to be compatible with the work environment. The employee may alter some or all of the values within his or her moral philosophy as he or she shifts into the firm's different moral philosophy. Many people are acquainted with someone who is known for their goodness at home or in their communities who makes 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. Simply put, when examining moral philosophies, we must remember that each philosophy states an ideal perspective and that most individuals seem to shift to other moral philosophies in their individual interpretation of and experiencing of ethical dilemmas. In other words, implementing moral philosophies from an individual perspective is not an exact science. It 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 may be based not only on perceived right or wrong but also on producing 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.

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.[33] 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, though they are always responsible for their own actions, they rarely have the power (especially in entry-level and middle-management positions) to impose their own personal moral perspective on others. In fact, the idea that a new employee has the freedom to make independent decisions on a variety of job responsibilities is not realistic.

Sometimes a company makes decisions that could be questionable according to individual customers' values and moral philosophies. For example, a brewery or a distributor of sexually explicit movies could be considered unethical to some stakeholders based on a personal perspective. A company's core values will determine how decisions that bring moral philosophies into conflict are made. 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.

Problems arise when employees encounter ethical situations that they cannot resolve. Sometimes gaining a better understanding of the basic premise of their decision rationale can help them choose the "right" solution. For instance, to decide whether they should offer bribes to customers to secure a large contract, salespeople need to understand their own personal moral philosophies as well as their firm's core values. 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."

COGNITIVE MORAL DEVELOPMENT

> *"Problems arise when employees encounter ethical situations that they cannot resolve."*

Many people believe that individuals advance through stages of moral development as their knowledge and socialization continue over time. In this section, we examine a model that describes this cognitive moral development process—that is, the stages through which people may progress in their development of moral thought. Many models, developed to explain, predict, and control individuals' ethical behavior within business organizations, have proposed that cognitive moral processing is an element in ethical decision making. Cognitive moral processing is based on a body of literature in psychology that focuses on studying children and their cognitive development.[34] Psychologist Lawrence Kohlberg adapted Piaget's theory and developed the six-stage model of cognitive development, which, although not specifically designed for business contexts, provides an interesting perspective on the question 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 stages of six cognitive moral development stages:

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 associated 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 that defines accepting gifts as an unethical practice, 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 culture 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 others rather than him or herself. Although ethical motivation is still derived from obedience to rules, the individual considers the well-being of others. A production manager in this stage might obey upper management's order to speed up an assembly line if he or she believed that this 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 other specific people. Duty, respect for authority, and maintaining the social order become the focal points. 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, a "social contract," to other groups 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 utilities. 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 there are inalienable rights, which 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 are deemed universal in nature. A person in this stage may be more concerned with social ethical issues and thus 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.[35]

Kohlberg's six stages can be reduced to three different 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 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.[36] 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 feel 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 the 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 be 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, more likely to consider the ethical views of the other people involved in an ethical decision making situation.

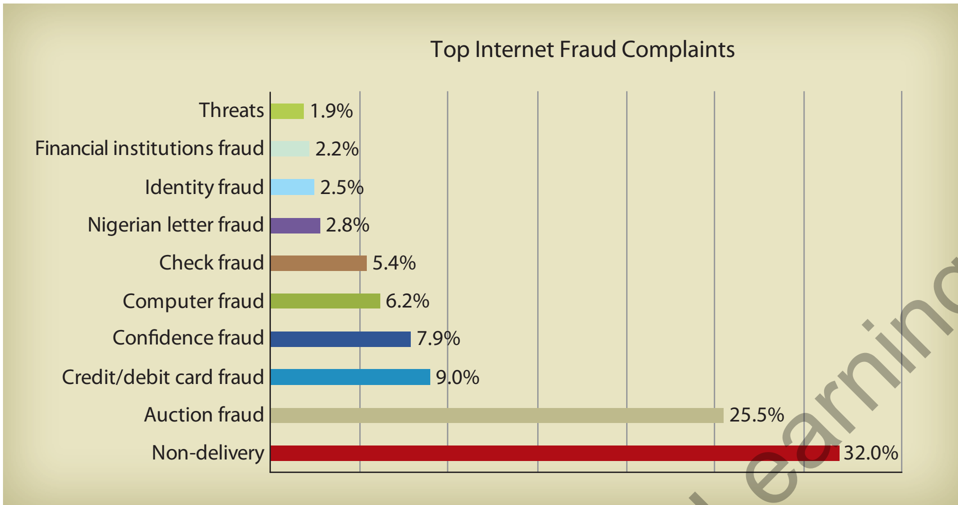
Once thought to be critical, the theory of cognitive moral development and the empirical research for the last 10 years has been mixed, suggesting both a positive and negative relationship between it and ethical decision making. The consensus appears to be that cognitive moral development is difficult at best to measure and connect with ethical decision making.[37]

WHITE-COLLAR CRIME

The terms *crime* and *criminal* normally conjure up thoughts of rape, arson, armed robbery, or murder. The news constantly reports on the damages that occur as a result of these types of crimes. But, although the devastation caused by these "crimes of the street" is more appealing to the evening news, it is no less destructive than the crimes perpetrated every year by seemingly nonviolent white-collar criminals. Referred to as **white-collar crimes** (WCCs), these "crimes of the suite" do more damage in monetary and emotional loss in one year than the crimes of the street over several years combined.[38]

WCC creates victims by establishing trust and respectability. WCCs are often considered to be different than crimes of the street. It is interesting to note in Figure 6–1 that deceptive pricing, unnecessary repairs, and credit card fraud are the three victim categories that were found in the national public household survey of consumers reporting over their lifetime. The victims of WCC are often trusting consumers who believe that businesses are legitimate. Unfortunately, senior citizens and other disadvantaged consumers fall prey to WCC perpetrators. Online white-collar crime is a growing problem around the world. Online WCC surged 33 percent during the most recent recession, accounting for

FIGURE 6–1 Top Internet Fraud Complaints



Source: "2008 Internet Crime Report," Bureau of Justice, http://www.ic3.gov/media/annualreport/2008_ic3report.pdf (accessed August 18, 2009).

nearly $265 billion in losses to U.S. households.[39] As a response to the surge in white-collar crimes, the Unites States government has stepped up its efforts to combat it, with the number of cases being investigated more than tripling since 2005. The government is concerned about the destabilizing effect that WCC has on U.S. households and the economy in general.[40]

At first glance, the job of deciding what constitutes a white-collar crime seems fairly simple. According to the glossary of legal terms for the Office of Justice Programs at 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 sets up an operation to swindle Medicaid are all fairly obvious candidates. However, WCC is not always so easy to define. Because government, Congress, and the American people want to better understand WCC, a number of subcategories have been created. Although the government official who accepts an illegal payment may have been wearing a white collar, he probably will be prosecuted under another title: official corruption. And while the corporate executive who orders his workers to dump illegal toxic waste materials in a nearby river also may be wearing a white collar, he probably will be classified as a violator of environmental regulations.

From various proposed definitions of WCC, the following appears to be inclusive of the main criminology literature yet parsimonious and exacting enough to be understood:

> *An individual or group committing an illegal act in relation to his/her employment, who is highly educated (college), in a position of power, trust, respectability and responsibility, within a profit/nonprofit business or government organization and who abuses the trust and authority normally associated with the position for personal and/or organizational gains.*

As one can see in Figure 6–1, many white-collar crimes are now being perpetrated via the Internet. A few of the most 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 trade secret theft. According to the FBI, white-collar crime costs the United States an estimated $300 billion annually. The government can charge both 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 are often reduced if the defendant takes responsibility for the crime and assists the authorities in their investigation.

White-collar crime has become a virtual epidemic in the financial world. For example, Federal regulators charged Texas financier R. Allen Stanford and three of his firms with a fraud that centered on high-interest certificates of deposit. The Securities and Exchange Commission alleged that Stanford arranged a fraudulent investment scheme centered on an $8 billion CD program that promised unrealistically high interest rates. The SEC alleged that Stanford and his businesses lied about the security of the deposits and that Stanford was running a second scheme tied to sales of mutual funds, which allegedly used fake historical data to lure investors. The mutual fund scheme grew from under $10 million in 2004 to over $1 billion when it was discovered. According to the SEC, the fraud helped generate $25 million in revenue from fees for Stanford Group in 2007 and 2008.[41] Another example of someone committing WCC is former Illinois Governor Rod Blagojevich, who was arrested for allegedly trying to sell former Senator Obama's vacant Senate seat. He was also found guilty of taking campaign contributions to exchange for official actions.[42] He faces a maximum of 140 years in prison.

The presence of technology also seems to be giving a whole new generation of criminals the opportunity to score big. WCCs that previously originated at the top of organizations are now able to be committed at lower levels. Because of these advanced technology systems and corporate culture's increased reliance on them, anyone with the ability to hack into a system now can access the highly sensitive information necessary to commit WCC.

A classic example of WCC is the fraud perpetrated by Bernard Madoff, which was discovered in December 2008. Madoff's scam was based upon a Ponzi scheme, in which the operating principle is that you must constantly attract new investors to pay off old investors the "gains" they were promised. Most Ponzi schemes self-destruct fairly quickly as the ability to keep attracting new investors dwindles.

However, Madoff kept his scheme going for many years. The business that started with a small circle of friends and relatives was built on the promise of modest and steady returns in spite of market swings. With Madoff's social and business connections, and remarkably steady returns of 10 percent to 12 percent, investors were willing to spend billions of dollars. Part of the appeal was the aura that this investment opportunity was highly exclusive, although it later came out that thousands had given their money to Madoff.

When investors questioned Madoff about their investments, he refused to provide them online access to their accounts. Nonetheless, Madoff's well-dressed, multilingual sales representatives continued to convince European buyers to invest.

Many people indicate that one red flag would have been the fact that Madoff would have overtaken the market had he traded the options in the volumes necessary to meet his financial goals. Madoff ultimately admitted to running a 4,800-client Ponzi scheme for more than a decade. While investors thought they had nearly $65 billion invested with Madoff, his financial advisement firm never had anywhere near that much money. Incredibly, he had not invested a single penny. Instead, Madoff deposited the money in a bank account, which he then used to pay investors when they asked for their money back.

The only way he sustained the operation for as long as he did was through attracting new clients. Madoff will spend the rest of his life in prison for his crime.[43]

The focus of criminology is often the behavior of the individual and discovery of the reasons why people commit such crimes. Advocates of the organizational deviance perspective argue that a corporation is a living, breathing organism that can collectively become deviant; that companies have a life of their own, separate and distinct from biological persons; that the ultimate "actors" in an organization are individuals; and that the corporate culture of the company transcends the individuals who occupy these positions. With time, patterns of activities become institutionalized within the organization that live on after those who established them have left the firm. Table 6–4 lists some of the top justifications given by perpetrators of white collar crimes.

Another common cause of WCC is peer influence, the result of an individual's circle of acquaintances within an organization, with their accompanying views and behaviors. Employees, at least in part, self-select the people with whom they associate within an organization. For companies with a high number of ethical employees, there is a higher probability that a fence sitter (the 40 percent of businesspeople who could be persuaded to be ethical or unethical) will go along with their coworkers.

Finally, there is an argument to be made that some businesspeople may have personalities that are inherently criminal.[44] Personality tests have been used to predict behavior in individuals working within an organization, but such tests presuppose that values and philosophies are constant; thus, they seem to be ineffective as an approach to understanding the subtleties of white-collar criminals.[45] We also know that businesspeople and companies must make a profit on revenue to exist, slanting their orientation toward teleology and making them increasingly likely to commit white-collar crimes. The answer to the increase in WCC is not easy to pinpoint because many variables cause good people to make bad decisions. Many people disagree that the government is devoting enough resources to combat WCC. The current focus of the Federal Sentencing Guidelines for Organizations is that all organizations should develop effective ethics and compliance programs to prevent WCC.

TABLE 6–4 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).

THE ROLE OF INDIVIDUAL FACTORS IN BUSINESS ETHICS

Of course, not everyone agrees on what the role of traditional moral philosophies in ethical decision making in an organization is. Some types such as Machiavellianism, which comes from the writing of Machiavelli, an Italian political theorist, have been found to influence ethical decisions. *The Prince* (a letter that Machiavelli wrote from exile to an Italian prince) argues against the relevance of morality in political affairs and holds that craft and deceit are justified in pursuing and maintaining political power. Machiavelli is famous for the idea that, for a leader, it is better to be feared than to be loved. This type of thinking abounds within *The Prince* because Machiavelli basically presents a guidebook for obtaining and maintaining power without the need for morality. Most business managers do not embrace this extreme philosophy, and most managers cannot communicate the exact moral philosophy that they use to make ethical decisions.

According to ethics consultant David Gebler, "Most unethical behavior is not done for personal gain, it's done to meet performance goals."[46] Unfortunately, many people believe that individual moral philosophies 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 key factors that influence decision making, but as indicated in the models in Chapter 5, it is only one factor. The fact that many companies and business schools focus on personal character or moral development in their training programs as the main consideration reinforces the idea that employees can control the work environment. Although a personal moral compass is important, it is not sufficient to prevent ethical misconduct in an organizational context. The rewards for meeting performance goals and the corporate culture, especially for coworkers and managers, have been found to be the most important drivers of ethical decision making.[47]

"Although a personal moral compass is important, it is not sufficient to prevent ethical misconduct in an organizational context."

Strong abilities in ethical reasoning will probably lead to more ethical business decisions in the future than trying to provide detached character education for each employee.[48] Equipping employees with intellectual skills that will allow them to understand and resolve complex ethical dilemmas that they encounter in complex corporate cultures will help them make the right decisions. This approach will hopefully keep them from being carried along by peer pressure and lulled by unethical managers to engage in misconduct.[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 situations that a soldier will encounter. In a similar manner, accountants, managers, or 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, rules, or philosophies present guidelines for resolving conflicts and for optimizing the mutual benefit of people living in groups. Businesspeople are somewhat guided by moral philosophies as they formulate business strategies and resolve specific ethical issues.

Teleological, or consequentialist, philosophies stipulate 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 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 further can be classified 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 a cost–benefit analysis, which considers 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 ethicalness. Deontologists believe that individuals have certain absolute rights that must be respected. Rule deontologists believe that conformity to general moral principles determines ethicalness. 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 posits 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 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.

Ideas of justice as applied in business relate to evaluations of fairness. Justice relates to the 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 the 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 make different decisions in similar ethical situations because they are in different stages 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 was once believed.

White-collar crime can be defined as an individual who is educated and in a position of power, trust, respectability, and responsibility committing 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. Some reasons why white-collar crime is not being heavily researched are that it doesn't come to mind when people think of crime, the offender (or organization) is in a position of trust and respectability, criminology or criminal justice systems look at white-collar crime differently, and many researchers have not moved past the definitional issues. The increase in technology use seems 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 affect a person's values and decision making process. Other factors such as ethical awareness, biases, conflict, personality type, and intelligence have been studied, but no definitive conclusions can be made at this time about their relationship to ethical behavior. One thing we do know is that moral philosophies, values, and business are more complex than merely giving people honesty tests or value profiles that are not business oriented. Paper-and-pencil techniques do not yield accurate profiles for companies.

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
nonconsequentialist
rule deontologist
act deontologist
relativist perspective
descriptive relativism
metaethical relativist
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 Corporation (UBC) for several years. During that time, she has seen the company grow from a relatively small-size to a medium-size business with domestic and international customers. Elaine's husband, Dennis, has been involved 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 who reported to him or her. For the most part, the branch loan officers would go through the numbers of their loan people, as well as sign off on loans under $250,000. However, recently this limit had been increased to $500,000. For loans over this amount and up to $40 million, Elaine had to sign off. 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 while others did not, arguing that it was not a good financial business decision. The next prospective loan was for a Canadian company that was exporting 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 as to what we shouldn't be doing 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 had come from Electrode International, which sought $50 million. The numbers had been 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's 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. Are you 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/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 up with the times. For example, 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; however, 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, which rumor had it 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 was also 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 in other payments, and reduce the number of educational options for their child. Elaine had 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 outrage about such products, but your morals are 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 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 the 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.