

**Ethics in Business: Ethics or
Ethical Law, which comes
first?**

Ethics in Business: Ethics or Ethical Law, which comes first?

- Understand the relationship between ethics and the law and appreciate why it is important to behave ethically.
 1. Differentiate the claims of the stakeholder groups affected by a company's actions.
 2. Describe four rules to help companies and employees act in ethical ways and identify the four main sources of business ethics.
 3. Describe some methods companies can use to strengthen their ethical rules and positions.
 4. Appreciate the important ways a nation's business laws and regulations affect business commerce, occupations and organization.

Ethics in Business: Ethics or Ethical Law, which comes first?

Ethical Dimension

- There is an important ethical dimension in most kinds of business decision-making
- Ethics as a code of conduct presents ethical dilemmas that may be separate from the legal dimension.
- Ethics are motivation based on right and wrong and standards governing behavior and conduct.

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Ethical Beliefs and Dilemmas

- May lead to the development of laws - may also question existing laws and justify illegal behavior
- Digital piracy and/or downloading of copyrighted music and software is an example of this ethical dilemma

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Scope and Significance of Ethics

- Stakeholders, including employees, managers, customers, suppliers, distributors, as well as community and society have a stake and a claim and can directly benefit or be harmed by a company's actions
- Thus the business ethics of a company are important to all of these stakeholders
- So, when making business decisions managers must take the claims of all stakeholders into consideration and use four ethical rules or principles to analyze the affects of their business decisions

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Ethical Principles

- Utilitarian
- Moral rights
- Justice
- Practical rules

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Ethical Principles

- The *utilitarian* rule - an ethical decision should produce the greatest good for the greatest number of people
- The *moral rights* rule - an ethical decision should maintain and protect the fundamental rights and privileges of people
- The *justice* rule - an ethical decision should distribute benefits / harm among people fairly, equitably, impartially
- The *practical* rules - the ethical decision should be one that a manager has no hesitation to communicate to people outside the company because the typical person in a society would think the decision is acceptable

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Effects of Ethical Behavior

- Creates trust
- Lowers transaction costs
- Increases efficiency and effectiveness
- Increases production of trade

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Effects of Ethical Behavior

- Ethical behavior leads to *trust*
- Trust leads to *cooperation*
- Cooperation generates *synergies*
- Synergies reduce *transaction costs*
- Increasing company profitability
- Increasing national standard of living, well being, and prosperity
- Unethical behavior negates these effects

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Differences in Business Ethics

- Determinants between companies and countries:
 - Societal
 - Occupational
 - Individual
 - Organizational

Ethics in Business: Ethics or Ethical Law, which comes first?

- Societal Ethics evolve from laws, customs and practices
- Occupational Ethics are standards governing conduct of a trade, craft or profession - like Hippocratic oath for doctors
- Individual Ethics determine how people act toward other people and groups formed by life experiences with families and peers and societal institutions

Ethics in Business: Ethics or Ethical Law, which comes first?

Organizational Ethics

- Especially significant are the ethics of the company's top managers
- A code of ethics encourages company's members to act ethically with incentives for ethical behavior and disincentives for unethical behavior
- Companies are responsible for the behavior of their employees

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Organizational Ethics

- Managers can create authority relationships and rules that promote/punish ethical/unethical behavior
- Whistle-blowing occurs when employees feel powerless in the organization

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Advantages of Ethical Behavior

- The company's reputation is part of their goodwill and can enhance its profitability
- When companies act responsibly society benefits
- The way companies treat employees and communities shapes our values and norms
- Ethical behavior improves the quality of life and can reduce crime, poverty and unemployment rates and increase literacy rates

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Ethics and the Law

- Law often represents an ethical minimum
- Ethics often represents a standard that exceeds the legal minimum

Ethics in Business: Ethics or Ethical Law, which comes first?

Ethics transcends the Law

- Ethics requires us to give up the idea that an act is proper simply because it is permissible or that an act is ethical so long as it is legal.
- There is a big difference between what you have a right to do and what is right to do.
- Minimum compliance is like aiming for the outer rim of the target.

Ethics in Business: Ethics or Ethical Law, which comes first?

Legal Environment

- Subdivision of laws governing the business system and include
- Laws affecting commerce
- Laws affecting occupations
- Laws affecting organizations

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Laws Affecting Commerce

- Anti trust – investigating mergers
- Consumer safety – lead paint
- Environmental protection - pollution
- Public interest – Sarbanes-Oxley (2002)

Ethics in Business: Ethics or Ethical Law, which comes first?

Laws Affecting Occupations

- Regulation of occupational qualifications – CPA certification
- Promotion of employee health and safety – OSHA
- Ensuring business fairness and diversity – EEO/AA

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Laws Affecting Organization

- Determining a company's form of business organization - incorporation laws
- Bankruptcy laws – Chapter 7 / 11
- Protecting company resources / property – patents and copyrights

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Ethical Self-Interested Behavior

- Managing money and personal finances is a complex and difficult activity but it can be one of the most rewarding
- If you focus on determining the value of products and how they will provide you with utility now and in the future
- Financial success ultimately derives from hard work, some luck and the ability to look ahead and think about the future consequences of the spending and saving decisions made today
- The spending/saving decisions are the same factors that result in success or failure in business

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Ethical Self-Interested Behavior

- Most of the time, we know what we should do.
- The real test of ethics is whether we are willing to do the right thing
- ... even when it is likely to cost more than we want to pay.

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Golden Rules

- Confucius: What you do not want done to yourself, do not do unto others.
- Aristotle: We should behave to others as we wish others to behave to us.
- Judaism: What you dislike for yourself, do not do to anyone.
- Hinduism: Do nothing to thy neighbor which thou wouldst not have him do to thee thereafter.
- Islam: No one of you is a believer unless he loves for his brother what he loves for himself.
- Buddhism: Hurt not others with that which pains thyself.
- Christianity: Do unto others as you would have them do unto you.

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Enemies of Integrity

- Complacency
- Self delusion
- Rationalizations
- Survival Syndrome
- Win-at-any-cost
- Misplaced loyalty
- Undervaluing integrity
- Unaccountability
- Short-term thinking
- Arrogance of power

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Conclusions

- If there is a rule, and an exception to the rule, the idea should be to fit into the rule and not fit into the exception
- If short term and long term interests clash, long term should prevail:
 - How long is long term – may be 5-7 years
- Conduct which violates code of ethics of a self-regulatory organization is unethical
- While the eventual aim should be total ethics, there is nothing wrong in progressing towards ethics in stages

Ethics in Business: Ethics or Ethical Law, which comes first?

- Where business relations are based on long-term faith, a conduct that breaches the faith is unethical
 - E.g. cheating of a business partner
- Laws that are founded on principles of morality and good business conduct should not be violated
- If business using investors'/lenders' money becomes unsuccessful, ethics requires minimal personal expenses and maximum effort to restore business
- If a conduct is unethical, anything done to cover it is also unethical

Ethics in Business: Ethics or Ethical Law, which comes first?

- *When you decide to fight fire with fire..*
 - *... all you get is the ashes of your own integrity.*



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Thank you