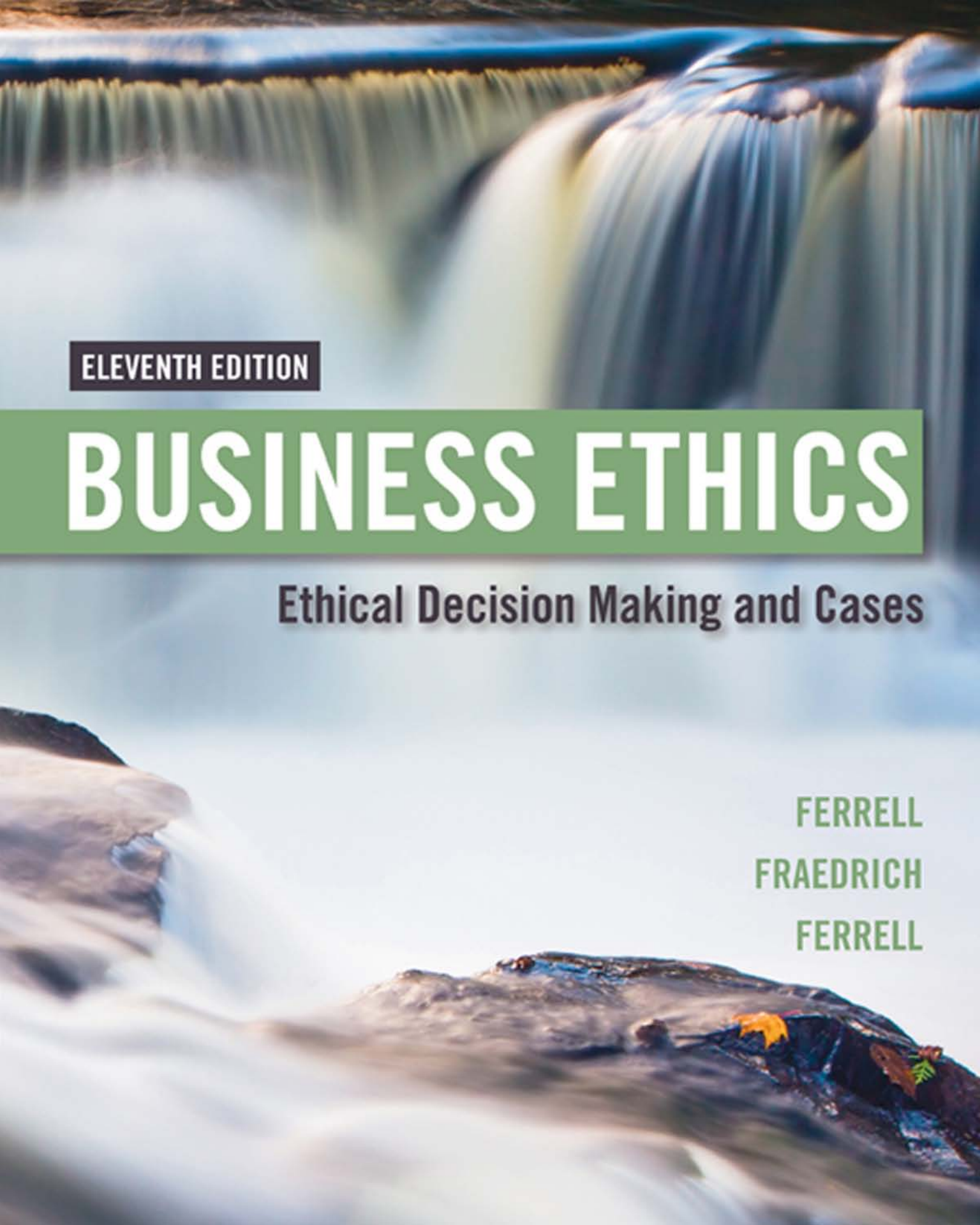
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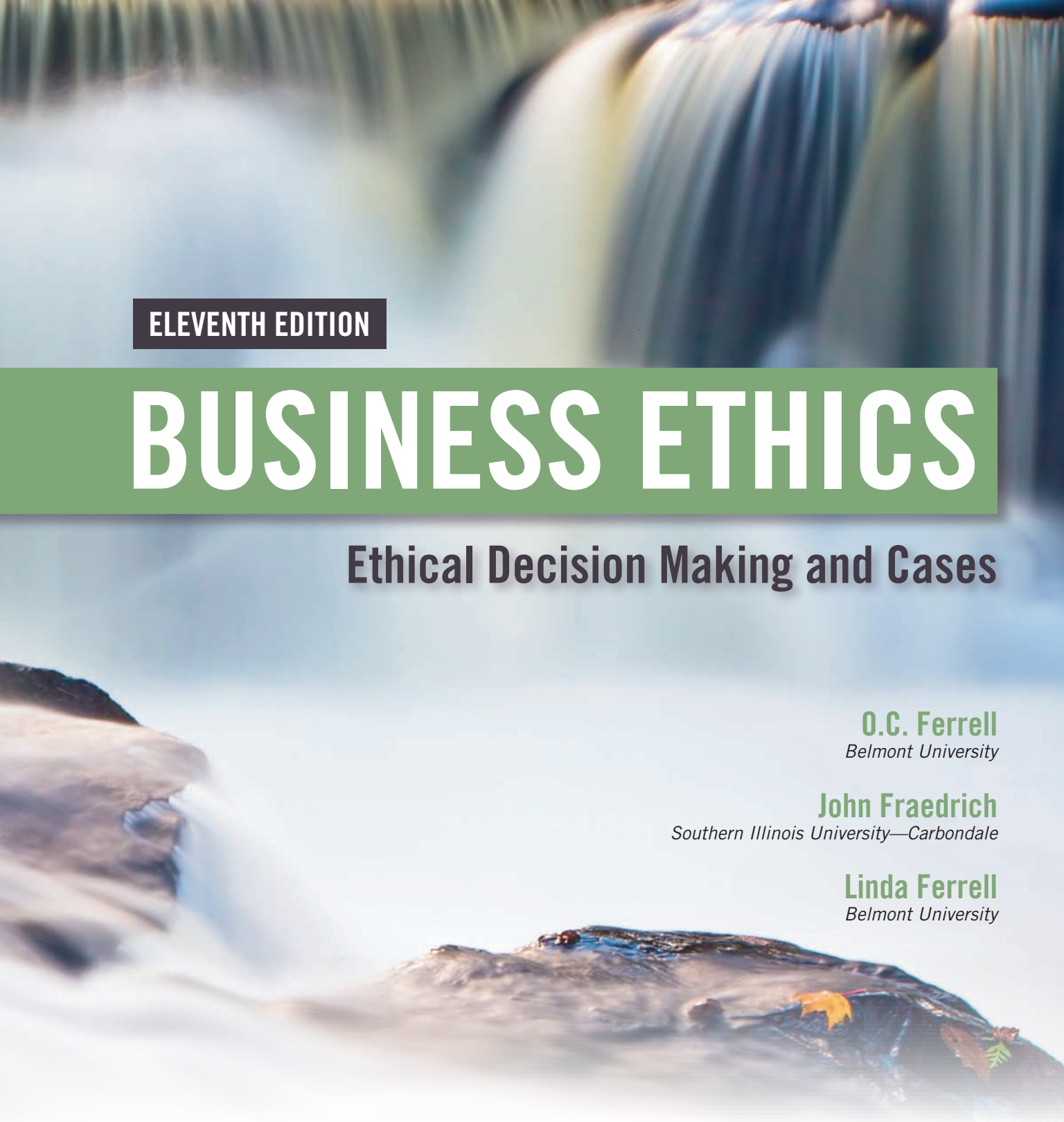

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BUSINESS ETHICS

Ethical Decision Making and Cases

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To James Collins Ferrell and George Collins Ferrell.

—O.C. Ferrell

To Emma, Matthew, Hyrum, and Ammon.

—John Fraedrich

To Brett Nafziger.

—Linda Ferrell

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PREFACE

This is the Eleventh Edition of *Business Ethics: Ethical Decision Making* and Cases. Our text has become the most widely used business ethics book, with approximately one out of three business ethics courses in schools of business using our text. We were the first major business ethics textbook to use a managerial framework that integrates ethics into strategic decisions. Today in corporate America, ethics and compliance has become a major functional area that structures responsible managerial decision making. Now that ethics has been linked to financial performance, there is growing recognition that business ethics courses are as important as other functional areas such as marketing, accounting, finance, and management.

Our approach is to help students understand and participate in effective ethical decision making in organizations. We approach business ethics from an applied perspective, focusing on conceptual frameworks, risks, issues, and dilemmas that will be faced in the real world of business. We prepare students for the challenges they will face in understanding how organizational ethical decision making works. We describe how ethical decisions in an organization involve collaboration in groups, teams, and discussions with peers. Many decisions fall into gray areas where the right decision may not be clear and requires the use of organizational resources and the advice of others. Students will face many ethical challenges in their careers, and our approach helps them to understand risks and be prepared to address ethical dilemmas. One approach to business ethics education is to include only a theoretical foundation related to ethical reasoning. Our method is to provide a balanced approach that includes the concepts of ethical reasoning as well as the organizational environment that influences ethical decision making.

The Eleventh Edition includes the most comprehensive changes we have made in any revision. Each chapter has been revised based on the latest research and knowledge available. Throughout the book, up-to-date examples are used to make foundational concepts come to life. There are 4 new cases, and the other 16 cases have been revised with all major changes occurring through the middle of 2015. The most significant change is the inclusion of social entrepreneurship in Chapter 4. Social entrepreneurship is a growing trend as organizations and individuals realize they can use entrepreneurial principles to effect social change. One of our cases, Belle Meade, strongly demonstrates how a nonprofit is able to use the same type of entrepreneurial activities found in business. It develops and sells wine to create sustainability for its organization, making it the nation's first nonprofit winery.

Using a managerial framework, we explain how ethics can be integrated into strategic business decisions. This framework provides an *overview of the concepts, processes,*

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mandatory, core, and *voluntary business practices* associated with successful business ethics programs. Some approaches to business ethics are excellent as exercises in intellectual reasoning, but they cannot deal with the many actual issues and considerations that people in business organizations face. Our approach supports ethical reasoning and the value of individuals being able to face ethical challenges and voice their concerns about appropriate behavior. Employees in organizations are ultimately in charge of their own behavior and need to be skillful in making decisions in gray areas where the appropriate conduct is not always obvious.

We have been diligent in this revision to provide the most relevant examples of how the lack of business ethics has challenged our economic viability and entangled countries and companies around the world. This book remains the market leader because it *addresses the complex environment of ethical decision making in organizations and pragmatic, actual business concerns.* Every individual has unique personal principles and values, and every organization has its own set of values, rules, and organizational ethical culture. Business ethics must consider the organizational culture and interdependent relationships between the individual and other significant persons involved in organizational decision making. Without effective guidance, a businessperson cannot make ethical decisions while facing a short-term orientation, feeling organizational pressure to perform well and seeing rewards based on outcomes in a challenging competitive environment.

By focusing on individual issues and organizational environments, this book gives students the opportunity to see roles and responsibilities they will face in business. The past decade has reinforced the value of understanding the role of business ethics in the effective management of an organization. Widespread misconduct reported in the mass media every day demonstrates that businesses, governments, nonprofits, and institutions of higher learning need to address business ethics.

Our primary goal has always been to enhance the awareness and the ethical decision-making skills that students will need to make business ethics decisions that contribute to responsible business conduct. By focusing on these concerns and issues of today's challenging business environment, we demonstrate that the study of business ethics is imperative to the long-term well-being of not only businesses, but also our economic system.

PHILOSOPHY OF THIS TEXT

The purpose of this book is to help students improve their ability to make ethical decisions in business by providing them with a framework that they can use to identify, analyze, and resolve ethical issues in business decision making. Individual values and ethics are important in this process. By studying business ethics, students begin to understand how to cope with conflicts between their personal values and those of the organization.

Many ethical decisions in business are close calls. It often takes years of experience in a particular industry to know what is acceptable. We do not, in this book, provide ethical answers but instead attempt to prepare students to make informed ethical decisions. First, we do not moralize by indicating what to do in a specific situation. Second, although we provide an overview of moral philosophies and decision-making processes, we do not prescribe any one philosophy or process as best or most ethical. Third, by itself, this book will not make students more ethical nor will it tell them how to judge the ethical behavior of others. Rather, its goal is to help students understand and use their current values and

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convictions in making business decisions and to encourage everyone to think about the effects of their decisions on business and society.

Many people believe that business ethics cannot be taught. Although we do not claim to teach ethics, we suggest that by studying business ethics a person can improve ethical decision making by identifying ethical issues and recognizing the approaches available to resolve them. An organization's reward system can reinforce appropriate behavior and help shape attitudes and beliefs about important issues. For example, the success of some campaigns to end racial or gender discrimination in the workplace provides evidence that attitudes and behavior can be changed with new information, awareness, and shared values.

CONTENT AND ORGANIZATION

In writing *Business Ethics*, Eleventh Edition, we strived to be as informative, complete, accessible, and up-to-date as possible. Instead of focusing on one area of ethics, such as moral philosophy or social responsibility, we provide balanced coverage of all areas relevant to the current development and practice of ethical decision making. In short, we have tried to keep pace with new developments and current thinking in teaching and practices.

The first half of the text consists of 12 chapters, which provide a framework to identify, analyze, and understand how businesspeople make ethical decisions and deal with ethical issues. Several enhancements have been made to chapter content for this edition. Some of the most important are listed in the next paragraphs.

Part 1, "An Overview of Business Ethics," includes two chapters that help provide a broader context for the study of business ethics. Chapter 1, "The Importance of Business Ethics," has been revised with many new examples and survey results to describe issues and concerns important to business ethics. Chapter 2, "Stakeholder Relationships, Social Responsibility, and Corporate Governance," has been significantly reorganized and updated with new examples and issues.

Part 2, "Ethical Issues and the Institutionalization of Business Ethics," consists of two chapters that provide the background that students need to identify ethical issues and understand how society, through the legal system, has attempted to hold organizations responsible for managing these issues. Chapter 3, "Emerging Business Ethics Issues," has been reorganized and updated and provides expanded coverage of business ethics issues. Chapter 4, "The Institutionalization of Business Ethics" examines key elements of core or best practices in corporate America today along with legislation and regulation requirements that support business ethics initiatives. The chapter is divided into three main areas: voluntary, mandated, and core boundaries.

Part 3, "The Decision-Making Process" consists of three chapters, which provide a framework to identify, analyze, and understand how businesspeople make ethical decisions and deal with ethical issues. Chapter 5, "Ethical Decision Making," has been revised and updated to reflect current research and understanding of ethical decision making and contains a section on normative considerations in ethical decision making. Chapter 6, "Individual Factors: Moral Philosophies and Values," has been updated and revised to explore the role of moral philosophies and moral development as individual factors in the ethical decision-making process. Chapter 7, "Organizational Factors: The Role of Ethical Culture and Relationships," considers organizational influences on business decisions, such as role relationships, differential association, and other organizational pressures, as well as whistle-blowing.

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Part 4, "Implementing Business Ethics in a Global Economy," looks at specific measures that companies can take to build an effective ethics program as well as how these programs may be affected by global issues, leadership, and sustainability issues. Chapter 8, "Developing an Effective Ethics Program," has been refined and updated with corporate best practices for developing effective ethics programs. Chapter 9, "Managing and Controlling Ethics Programs," offers a framework for auditing ethics initiatives as well as the importance of doing so. Such audits can help companies pinpoint problem areas, measure their progress in improving conduct, and even provide a "debriefing" opportunity after a crisis. Chapter 10, "Globalization of Ethical Decision Making" has been updated to reflect the complex and dynamic events that occur in global business. This chapter will help students understand the major issues involved in making decisions in a global environment. Chapter 11 focuses on ethical leadership. Reviewers indicated that they wanted more information provided on the importance of leadership to an ethical culture, and this chapter answers these requests. Finally, Chapter 12 is a chapter on sustainability. It examines the ethical and social responsibility dimensions of sustainability.

Part 5 consists of 20 cases in the texts that bring reality into the learning process. Four of these cases are new to the eleventh edition, and the remaining 14 have been revised and updated. In addition, four shorter cases are available on the Instructor's Companion website:

- Toyota: Challenges in Maintaining Integrity
- The Container Store: An Employee-centric Retailer
- The Ethics Program at Eaton Corporation
- Barrett-Jackson Auction Company: Family, Fairness, and Philanthropy

The companies and situations portrayed in these cases are real; names and other facts are not disguised; and all cases include developments up to the middle of 2015. By reading and analyzing these cases, students can gain insight into ethical decisions and the realities of making decisions in complex situations.

TEXT FEATURES

Many tools are available in this text to help both students and instructors in the quest to improve students' ability to make ethical business decisions.

- Each chapter opens with an outline and a list of learning objectives.
- Immediately following is "An Ethical Dilemma" that should provoke discussion about ethical issues related to the chapter. The short vignette describes a hypothetical incident involving an ethical conflict. Questions at the end of the "Ethical Dilemma" section focus discussion on how the dilemma could be resolved. All new ethical dilemmas have been provided for this edition.
- Each chapter has a contemporary real-world debate issue. Many of these debate issues have been updated to reflect current ethical issues in business. These debate issues have been found to stimulate thoughtful discussion relating to content issues in the chapter. Topics of the debate issues include the truthfulness of health claims, the universal health care debate, the contribution of ethical conduct to financial performance, legislation concerning whistle-blowing, and the impact of carbon emission restrictions.

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- At the end of each chapter are a chapter summary and an important terms' list, both of which are handy tools for review. Also included at the end of each chapter is a "Resolving Ethical Business Challenges" section. The vignette describes a realistic drama that helps students experience the process of ethical decision making. The "Resolving Ethical Business Challenges" minicases presented in this text are hypothetical; any resemblance to real persons, companies, or situations is coincidental. Keep in mind that there are no right or wrong solutions to the minicases.

The ethical dilemmas and real-life situations provide an opportunity for students to use concepts in the chapter to resolve ethical issues.

Each chapter concludes with a series of questions that allow students to test their EQ (Ethics Quotient).

- Cases. In Part 5, following each real-world case are questions to guide students in recognizing and resolving ethical issues. For some cases, students can conduct additional research to determine recent developments because many ethical issues in companies take years to resolve.

EFFECTIVE TOOLS FOR TEACHING AND LEARNING

Instructor's Resource Website. You can find the following teaching tools on the password-protected instructor site.

- **Instructor's Resource Manual.** The *Instructor's Resource Manual* contains a wealth of information. Teaching notes for every chapter include a brief chapter summary, detailed lecture outline, and notes for using the "Ethical Dilemma" and "Resolving Ethical Business Challenges" sections. Detailed case notes point out the key issues involved and offer suggested answers to the questions. A separate section provides guidelines for using case analysis in teaching business ethics. Detailed notes are provided to guide the instructor in analyzing or grading the cases. Simulation role-play cases, as well as implementation suggestions, are included.
- **Role-Play Cases.** The eleventh edition provides six behavioral simulation role-play cases developed for use in the business ethics course. The role-play cases and implementation methods can be found in the *Instructor's Resource Manual* and on the website. Role-play cases may be used as a culminating experience to help students integrate concepts covered in the text. Alternatively, the cases may be used as an ongoing exercise to provide students with extensive opportunities for interacting and making ethical decisions.

Role-play cases simulate a complex, realistic, and timely business ethics situation. Students form teams and make decisions based on an assigned role. The role-play case complements and enhances traditional approaches to business learning experiences because it (1) gives students the opportunity to practice making decisions that have business ethics consequences; (2) recreates the power, pressures, and information that affect decision

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making at various levels of management; (3) provides students with a team-based experience that enriches their skills and understanding of group processes and dynamics; and (4) uses a feedback period to allow for the exploration of complex and controversial issues in business ethics decision making. The role-play cases can be used with classes of any size.

- **Cengage Learning Testing Powered by Cognero.** This is a flexible, online system that allows you to author, edit, and manage test bank content from multiple Cengage Learning solutions; create multiple test versions in an instant; and deliver tests from your LMS, your classroom or wherever you want.

B-Reality Simulation: This online simulation helps to reinforce basic business ethics concepts, increases textbook comprehension, and helps the user better understand that business decisions usually have an ethics, moral, and/or legal component. The simulation makes no judgments; rather, it takes what is imputed by the user, and at the end of each year it explains whether the user acted ethically, unethically, legally/illegally, and why. At the end of four decades of decisions, a report is generated giving a list of the user's morals, income, promotions, and how the company defined which decisions were ethical or unethical and which were legal or illegal. Users better understand all angles of the reality of their business decisions before they confront them in the workplace.

Additional Teaching Resources. The University of New Mexico (UNM) Daniels Fund Ethics Initiative is part of a four-state initiative to develop teaching resources to support principle-based ethics education. Their publicly accessible website contains original cases, debate issues, videos, interviews, and PowerPoint modules on select business ethics topics, as well as other resources such as articles on business ethics education. It is possible to access this website at http://danielsethics.mgt.unm.edu.

Students also have the ability to receive ethical leadership certification from the National Association of State Boards of Accountancy (NASBA) Center for Public Trust. This program is comprised of six modules of online content (delivered through Brainshark, containing videos, graphics, and a voice over). At the end of each of the six modules, students will take an online examination through NASBA. When students complete all six modules successfully, they will receive NASBA Center for the Public Trust Ethical Leadership Certification. As business ethics increases in importance, such certification can give your students an edge in the workplace. For more information, visit https://www.thecpt.org/ethical-leadership-certification-program/.

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We invite your comments, questions, or criticisms. We want to do our best to provide teaching materials that enhance the study of business ethics. Your suggestions will be sincerely appreciated.

– O. C. Ferrell
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CHAPTER 1

THE IMPORTANCE OF BUSINESS ETHICS

CHAPTER OBJECTIVES

- Explore conceptualizations of business ethics from an organizational perspective
- Examine the historical foundations and evolution of business ethics
- Provide evidence that ethical value systems support business performance
- Gain insight into the extent of ethical misconduct in the workplace and the pressures for unethical behavior

CHAPTER OUTLINE

Business Ethics Defined

Why Study Business Ethics?

- *A Crisis in Business Ethics*
- *Specific Issues*
- *The Reasons for Studying Business Ethics*

The Development of Business Ethics

- *Before 1960: Ethics in Business*
- *The 1960s: The Rise of Social Issues in Business*
- *The 1970s: Business Ethics as an Emerging Field*
- *The 1980s: Consolidation*
- *The 1990s: Institutionalization of Business Ethics*
- *The Twenty-First Century of Business Ethics*

Developing an Organizational and Global Ethical Culture

The Benefits of Business Ethics

- *Ethics Contributes to Employee Commitment*
- *Ethics Contributes to Investor Loyalty*
- *Ethics Contributes to Customer Satisfaction*
- *Ethics Contributes to Profits*

Our Framework for Studying Business Ethics

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AN ETHICAL DILEMMA*

Sophie just completed a sales training course with one of the firm's most productive sales representatives, Emma. At the end of the first week, Sophie and Emma sat in a motel room filling out their expense vouchers for the week. Sophie casually remarked to Emma that the training course stressed the importance of accurately filling out expense vouchers.

Emma replied, "I'm glad you brought that up, Sophie. The company expense vouchers don't list the categories we need. I tried many times to explain to the accountants that there are more expenses than they have boxes for. The biggest complaint we, the salespeople, have is that there is no place to enter expenses for tipping waitresses, waiters, cab drivers, bell hops, airport baggage handlers, and the like. Even the government assumes tipping and taxes them as if they were getting an 18 percent tip. That's how service people actually survive on the lousy pay they get from their bosses. I tell you, it is embarrassing not to tip. One time I was at the airport and the skycap took my bags from me so I didn't have the hassle of checking them. He did all the paper work and after he was through, I said thank you. He looked at me in disbelief because he knew I was in sales. It took me a week to get that bag back."

"After that incident I went to the accounting department, and every week for five months I told them they needed to change the forms. I showed them the approximate amount the average salesperson pays in tips per week. Some of them were shocked at the amount. But would they change it or at least talk to the supervisor? No! So I went directly to him, and do you know what he said to me?"

"No, what?" asked Sophie.

"He told me that this is the way it has always been done, and it would stay that way. He also told me if I tried to go above him on this, I'd be looking for another job. I can't chance that now, especially in this economy. Then he had the nerve to tell me that salespeople are paid too much, and that's why we could eat the added expenses. We're the only ones who actually generate revenue and he tells me that I'm overpaid!"

"So what did you do?" inquired Sophie.

"I do what my supervisor told me years ago. I pad my account each week. For me, I tip 20 percent, so I make sure I write down when I tip and add that to my overall expense report."

"But that goes against company policy. Besides, how do you do it?" asked Sophie.

"It's easy. Every cab driver will give you blank receipts for cab fares. I usually put the added expenses there. We all do it," said Emma. "As long as everyone cooperates, the Vice President of Sales doesn't question the expense vouchers. I imagine she even did it when she was a lowly salesperson."

"What if people don't go along with this arrangement?" asked Sophie.

"In the past, we have had some who reported it like corporate wants us to. I remember there was a person who didn't report the same amounts as the co-worker traveling with her. Several months went by and the accountants came in, and she and all the salespeople that traveled together were investigated. After several months the one who ratted out the others was fired or quit, I can't remember. I do know she never worked in our industry again. Things like that get around. It's a small world for good salespeople, and everyone knows everyone."

"What happened to the other salespeople who were investigated?" Sophie asked.

"There were a lot of memos and even a 30-minute video as to the proper way to record expenses. All of them had conversations with the vice president, but no one was fired."

"No one was fired even though it went against policy?" Sophie asked Emma.

"At the time, my conversation with the VP went basically this way. She told me that corporate was not going to change the forms, and she acknowledged it was not fair or equitable to the salespeople. She hated the head accountant because he didn't want to accept the reality of a salesperson's life in the field. That was it. I left the office and as I walked past the Troll's office—that's what we call the head accountant—he just smiled at me."

This was Sophie's first real job out of school and Emma was her mentor. What should Sophie report on her expense report?

QUESTIONS | EXERCISES

1. Identify the issues Sophie has to resolve.
2. Discuss the alternatives for Sophie.
3. What should Sophie do if company policy appears to conflict with the firm's corporate culture?

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The ability to anticipate and deal with business ethics issues and dilemmas has become a significant priority in the twenty-first century. In recent years, a number of well-publicized scandals resulted in public outrage about deception, fraud, and distrust in business and a subsequent demand for improved business ethics, greater corporate responsibility, and laws to protect the financially innocent. The publicity and debate surrounding highly publicized legal and ethical lapses at well-known firms highlight the need for businesses to integrate ethics and responsibility into all business decisions. On the other hand, the majority of ethical businesses with no or few ethical lapses are rarely recognized in the mass media for their conduct, mainly because good companies doing business the right way do not generate media interest.

Highly visible business ethics issues influence the public's attitudes toward business and destroy trust. Ethically charged decisions are a part of everyday life for those who work in organizations at all levels. Business ethics is not just an isolated personal issue; codes, rules, and informal communications for responsible conduct are embedded in an organization's operations. This means ethical or unethical conduct is the province of everyone who works in an organizational environment, from the lowest level employee to the CEO.

Making good ethical decisions are just as important to business success as mastering management, marketing, finance, and accounting. While education and training emphasize functional areas of business, business ethics is often viewed as easy to master, something that happens with little effort. The exact opposite is the case. Decisions with an ethical component are an everyday occurrence requiring people to identify issues and make quick decisions. Ethical behavior requires understanding and identifying issues, areas of risk, and approaches to making choices in an organizational environment. On the other hand, people can act unethically simply by failing to identify a situation that has an ethical issue. Ethical blindness results from individuals who fail to sense the nature and complexity of their decisions.[1] Some approaches to business ethics look only at the philosophical backgrounds of individuals and the social consequences of decisions. This approach fails to address the complex organizational environment of businesses and pragmatic business concerns. By contrast, our approach is managerial and incorporates real-world decisions that impact the organization and stakeholders. Our book will help you better understand how business ethics is practiced in the business world.

It is important to learn how to make decisions in the internal environment of an organization to achieve personal and organizational goals. But business does not exist in a vacuum. As stated, decisions in business have implications for investors, employees, customers, suppliers, and society. Ethical decisions must take these stakeholders into account, for unethical conduct can negatively affect people, companies, industries, and society as a whole. Our approach focuses on the practical consequences of decisions and on positive outcomes that have the potential to contribute to individuals, business, and society at large. The field of business ethics deals with questions about whether specific conduct and business practices are acceptable. For example, should a salesperson omit facts about a product's poor safety record in a sales presentation to a client? Should accountants report inaccuracies they discover in an audit of a client, knowing the auditing company will probably be fired by the client for doing so? Should an automobile tire manufacturer intentionally conceal safety concerns to avoid a massive and costly tire recall? Regardless of their legality, others will certainly judge the actions in such situations as right or wrong, ethical or unethical. By its very nature, the field of business ethics is controversial, and there is no universally accepted approach for resolving its dilemmas.

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All organizations have to deal with misconduct. Even prestigious colleges such as Harvard and Dartmouth are not exempt. Students at Dartmouth were disciplined for cheating on their attendance and participation in an undergraduate ethics course. Because the course used hand clickers registered to each student as a sign of attendance and participation, students who wanted to cut class would give their hand clickers to other classmates.[2] Two administrators at the University of North Carolina at Chapel Hill oversaw courses where the students—often athletes—did not have to show up. The courses included lectures that never met spanning back to the 1990s.[3]

Before we get started, it is important to state our approach to business ethics. First, we do not moralize by stating what is right or wrong in a specific situation, although we offer background on normative guidelines for appropriate conduct. Second, although we provide an overview of group and individual decision-making processes, we do not prescribe one approach or process as the best or most ethical. However, we provide many examples of successful ethical decision making. Third, by itself, this book will not make you more ethical, nor will it give you equations on how to judge the ethical behavior of others. Rather, its goal is to help you understand, use, and improve your current values and convictions when making business decisions so you think about the effects of those decisions on business and society. Our approach will help you understand what businesses are doing to improve their ethical conduct. To this end, we aim to help you learn to recognize and resolve ethical issues within business organizations. As a manager, you will be responsible for your decisions and the conduct of the employees you supervise. For this reason, we provide a chapter on ethical leadership. The framework we developed focuses on how organizational decisions are made and on ways companies can improve their ethical conduct. This process is more complex than many think. People who believe they know how to make the "right" decision usually come away with more uncertainty about their own decision skills after learning about the complexity of ethical decision making. This is a normal occurrence, and our approach will help you evaluate your own values as well as those of others. It also helps you to understand the nature of business ethics and incentives found in the workplace that change the way you make decisions in business versus at home.

In this chapter, we first develop a definition of business ethics and discuss why it has become an important topic in business education. We also discuss why studying business ethics can be beneficial. Next, we examine the evolution of business ethics in North America. Then we explore the performance benefits of ethical decision making for businesses. Finally, we provide a brief overview of the framework we use for examining business ethics in this text.

BUSINESS ETHICS DEFINED

To understand business ethics, you must first recognize that most people do not have specific definitions they use to define ethics-related issues. The terms morals, principles, values, and ethics are often used interchangeably, and you will find this is true in companies as well. Consequently, there is much confusion regarding this topic. To help you understand these differences, we discuss these terms.

For our purposes, **morals** refer to a person's personal philosophies about what is right or wrong. The important point is that when one speaks of morals, it is personal or singular. Morals, your philosophies or sets of values of right and wrong, relate to you and you alone.

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You may use your personal moral convictions in making ethical decisions in any context. **Business ethics** comprises organizational principles, values, and norms that may originate from individuals, organizational statements, or from the legal system that primarily guide individual and group behavior in business. **Principles** are specific and pervasive boundaries for behavior that should not be violated. Principles often become the basis for rules. Some examples of principles could include human rights, freedom of speech, and the fundamentals of justice. **Values** are enduring beliefs and ideals that are socially enforced. Several desirable or ethical values for business today are teamwork, trust, and integrity. Such values are often based on organizational or industry best practices. Investors, employees, customers, interest groups, the legal system, and the community often determine whether a specific action or standard is ethical or unethical. Although these groups influence the determination of what is ethical or unethical for business, they also can be at odds with one another. Even though this is the reality of business and such groups may not necessarily be right, their judgments influence society's acceptance or rejection of business practices.

Ethics is defined as behavior or decisions made within a group's values. In our case we are discussing decisions made in business by groups of people that represent the business organization. Because the Supreme Court defined companies as having limited individual rights,[4] it is logical such groups have an identity that includes core values. This is known as being part of a corporate culture. Within this culture there are rules and regulations both written and unwritten that determine what decisions employees consider right or wrong as it relates to the firm. Such evaluations are judgments by the organization and are defined as its ethics (or in this case their business ethics). One difference between an ordinary decision and an ethical one lies in "the point where the accepted rules no longer serve, and the decision maker is faced with the responsibility for weighing values and reaching a judgment in a situation which is not quite the same as any he or she has faced before."[5] Another difference relates to the amount of emphasis decision makers place on their own values and accepted practices within their company. Consequently, values and judgments play a critical role when we make ethical decisions.

Building on these definitions, we begin to develop a concept of business ethics. Most people agree that businesses should hire individuals with sound moral principles. However, some special aspects must be considered when applying ethics to business. First, to survive and contribute to society, businesses must earn a profit. There is no conflict or trade-offs between profits and business ethics. For instance, Google, Texas Instruments, and Starbucks are highly profitable companies that have earned a reputation for ethical conduct.[6] Second, to be successful businesses must address the needs and desires of stakeholders. The good news is the world's most ethical companies often have superior stock performance.[7] To address these unique aspects of the business world, society has developed rules—both legal and implicit—to guide businesses in their efforts to earn profits in ways that help individuals or society and contribute to social and economic well-being.

WHY STUDY BUSINESS ETHICS?

A Crisis in Business Ethics

Business ethics has become a major concern in business today. The Ethics Resource Center conducts the National Business Ethics Survey (NBES) of more than 6,000 U.S. employees

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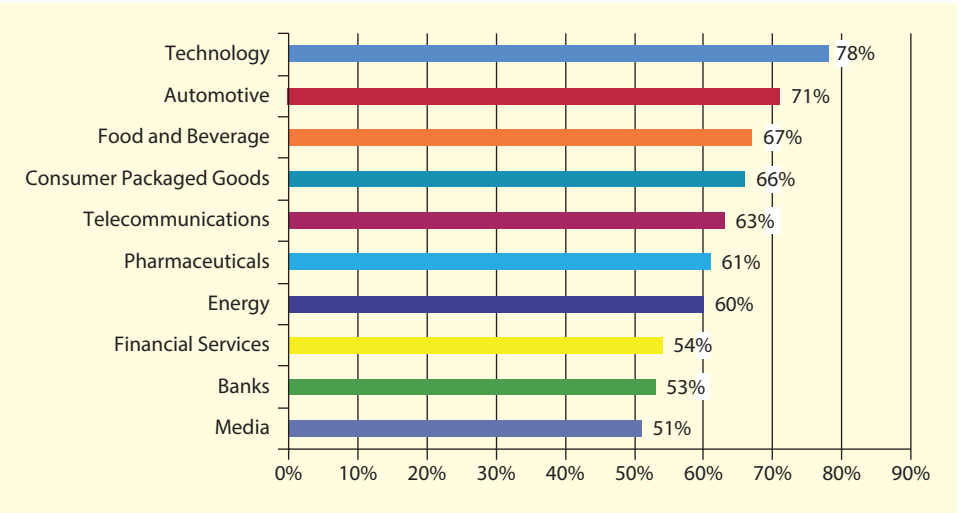
FIGURE 1–1 Global Trust in Industry Sectors



Source: Edelman, *2015 Edelman Trust Barometer*, http://www.edelman.com/insights/intellectual-property/2015-edelman-trust-barometer/trust-and-innovation-edelman-trust-barometer/global-results/ (accessed January 30, 2015).

to gather reliable data on key ethics and compliance outcomes and to help identify and better understand the ethics issues that are important to employees. The NBES found that 41 percent of employees reported observing at least one type of misconduct. Approximately 63 percent reported the misconduct to management, an increase from previous years.[8] Business ethics decisions and activities have come under greater scrutiny by many different stakeholders, including consumers, employees, investors, government regulators, and special interest groups. For instance, regulators carefully examined risk controls at JP Morgan Chase to investigate whether there were weaknesses in its system that allowed the firm to incur billions of dollars in losses through high-risk trading activities. Regulators are placing financial institutions under greater scrutiny and holding them increasingly accountable. There has been a long conflict between U.S. regulators and Swiss banks regarding whether these banks were being used to evade U.S. taxes. Credit Suisse pled guilty to helping Americans evade their taxes and was forced to pay a $2.6 billion fine.[9] Figure 1–1 shows the percentage of global respondents who say they trust a variety of businesses in various industries. Financial institutions and banks have some of the lowest ratings, indicating that the financial sector has not been able to restore its reputation since the most recent recession. There is no doubt negative publicity associated with major misconduct lowered the public's trust in certain business sectors.[10] Decreased trust leads to a reduction in customer satisfaction and customer loyalty, which in turn can negatively impact the firm or industry.[11]

Specific Issues

There are a number of ethical issues that must be addressed to prevent misconduct. Misuse of company resources, abusive behavior, harassment, accounting fraud, conflicts of interest, defective products, bribery, product knockoffs, and employee theft are all problems cited as potential risk areas. Chinese e-commerce giant Alibaba, which trades on the

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New York Stock Exchange, was reprimanded by Chinese government authorities for ignoring the sales of knockoff products through Taobao, its biggest e-commerce platform. They also accused Alibaba employees of engaging in anticompetitive behavior such as bullying merchants to stay away from rival sites. As China attempts to secure a more solid reputation in the business world, its government recognizes that it must take steps to eliminate organizational misconduct.[12] Other ethical issues relate to recognizing the interests of various stakeholders. For instance, residents of Swansboro, North Carolina attempted to adopt an ordinance to prevent Walmart from opening a superstore in the area. The fear is that smaller independent stores cannot compete when big-box retailers come to town.[13] Although large companies like Walmart have significant power, pressures from the community still limit what they can do.

General ethics plays an important role in the public sector as well. In government, several politicians and high-ranking officials have experienced significant negative publicity, and some resigned in disgrace over ethical indiscretions. Former New Orleans mayor Ray Nagin was sentenced to 10 years in prison for misconduct during his tenure as mayor, including bribery, money laundering, and conspiracy.[14] Such political scandals demonstrate that political ethical behavior must be proactively practiced at all levels of public service.

Every organization has the potential for unethical behavior. For instance, the U.S. Defense Secretary ordered a renewed focus on military ethics after cheating scandals occurred in different branches of the military. Air force officers at the Malmstrom Air Force Base in Montana were suspended after it was discovered that there had been widespread cheating on monthly proficiency tests on operating warheads. Similarly, the U.S. Navy was criticized when sailors were found to have cheated on qualification exams for becoming nuclear reactor instructors. The Defense Secretary is concerned that the issue might be systemic, requiring an ethics overhaul in the military.[15]

Even sports ethics can be subject to lapses. The National Football League was heavily criticized for initially giving Baltimore Ravens player Ray Rice a two-game suspension after videos surfaced of him abusing his girlfriend. The scandal caused outrage among consumers who felt the NFL did not take domestic abuse incidents seriously. The NFL apologized and changed its policies on domestic abuse.[16] This incident along with other sports scandals has led to calls for greater accountability among sports players and coaches.

Whether they are made in the realm of business, politics, science, or sports, most decisions are judged either right or wrong, ethical or unethical. Regardless of what an individual believes about a particular action, if society judges it to be unethical or wrong, new legislation usually follows. Whether correct or not, that judgment directly affects a company's ability to achieve its business goals. You should be aware that the public is more tolerant of questionable consumer practices than of similar business practices. Double standards are at least partly due to differences in wealth and the success between businesses and consumers. The more successful a company, the more the public is critical when misconduct occurs.[17] For this reason alone, it is important to understand business ethics and recognize ethical issues.

The Reasons for Studying Business Ethics

Studying business ethics is valuable for several reasons. Business ethics is more than an extension of an individual's own personal ethics. Many people believe if a company hires good people with strong ethical values, then it will be a "good citizen" organization. But as

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we show throughout this text, an individual's personal moral values are only one factor in the ethical decision-making process. True, moral values can be applied to a variety of situations in life, and some people do not distinguish everyday ethical issues from business ones. Our concern, however, is with the application of principles, values, and standards in the business context. Many important issues are not related to a business context, although they remain complex moral dilemmas in a person's own life. For example, although abortion and human cloning are moral issues, they are not an issue in most business organizations.

Professionals in any field, including business, must deal with individuals' personal moral dilemmas because such dilemmas affect everyone's ability to function on the job. Normally, a business does not dictate a person's morals. Such policies would be illegal. Only when a person's morals influence his or her performance on the job does it involve a dimension within business ethics.

Just being a good person and having sound personal values may not be sufficient to handle the ethical issues that arise in a business organization. Although truthfulness, honesty, fairness, and openness are often assumed to be self-evident and accepted, business-strategy decisions involve complex and detailed discussions. For example, there is considerable debate over what constitutes antitrust, deceptive advertising, and violations of the Foreign Corrupt Practices Act. A high level of personal moral development may not prevent an individual from violating the law in a complicated organizational context where even experienced lawyers debate the exact meaning of the law. For instance, the National Labor Relations Board ruled that employees have the right to use company email systems to discuss working conditions and unionization as long as it is not on company time. Employer groups claim that employees have plenty of options for discussing these topics and maintain that it will be hard to ensure employees are not using company computer servers for these purposes during work hours. The right of employees versus employers is a controversial topic that will continue to need clarification from the courts.[18]

Some approaches to business ethics assume ethics training is for people whose personal moral development is unacceptable, but that is not the case. Because organizations are culturally diverse and personal morals must be respected, ensuring collective agreement on organizational ethics (that is, codes reasonably capable of preventing misconduct) is as vital as any other effort an organization's management may undertake.

Many people with limited business experience suddenly find themselves making decisions about product quality, advertising, pricing, sales techniques, hiring practices, and pollution control. The morals they learned from family, religion, and school may not provide specific guidelines for these complex business decisions. In other words, a person's experiences and decisions at home, in school, and in the community may be quite different from his or her experiences and decisions at work. Many business ethics decisions are close calls. In addition, managerial responsibility and ethical leadership for the conduct of others requires knowledge of ethics and compliance processes and systems. Years of experience in a particular industry may be required to know what is acceptable. For example, when are advertising claims more exaggeration than truth? When does such exaggeration become unethical? Pet food manufacturer Blue Buffalo's claims that its food contains no byproducts and is superior to competitors' did not set well with Purina. Purina filed a lawsuit against Blue Buffalo claiming that an independent test detected byproducts in Blue Buffalo's pet food. Blue Buffalo denied the allegations. While misleading advertising violates the law, puffery—or an exaggerated claim that customers should not take seriously—is considered acceptable. In this case, Blue Buffalo's claims are clearly not puffery, which is why Purina challenged the company through a lawsuit.[19]

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Studying business ethics will help you begin to identify ethical issues when they arise and recognize the approaches available for resolving them. You will learn more about the ethical decision-making process and about ways to promote ethical behavior within your organization. By studying business ethics, you may also begin to understand how to cope with conflicts between your own personal values and those of the organization in which you work. As stated earlier, if after reading this book you feel a little more unsettled about potential decisions in business, your decisions will be more ethical and you will have knowledge within this area.

THE DEVELOPMENT OF BUSINESS ETHICS

The study of business ethics in North America has evolved through five distinct stages—(1) before 1960, (2) the 1960s, (3) the 1970s, (4) the 1980s, and (5) the 1990s—and continues to evolve in the twenty-first century (see Table 1–1).

Before 1960: Ethics in Business

Prior to 1960, the United States endured several agonizing phases of questioning the concept of capitalism. In the 1920s, the progressive movement attempted to provide citizens with a "living wage," defined as income sufficient for education, recreation, health, and retirement. Businesses were asked to check unwarranted price increases and any other practices that would hurt a family's living wage. In the 1930s came the New Deal that specifically blamed business for the country's economic woes. Business was asked to work more closely with the government to raise family income. By the 1950s, the New Deal evolved into President Harry S. Truman's Fair Deal, a program that defined such matters as civil rights and environmental responsibility as ethical issues that businesses had to address.

Until 1960, ethical issues related to business were often discussed within the domain of theology or philosophy or in the realm of legal and competitive relationships. Religious leaders raised questions about fair wages, labor practices, and the morality of capitalism. For example, Catholic social ethics, expressed in a series of papal encyclicals, included concern for morality in business, workers' rights, and living wages; for humanistic values rather than materialistic ones; and for improving the conditions of the poor. The Protestant work ethic encouraged individuals to be frugal, work hard, and attain success in the capitalistic system. Such religious traditions provided a foundation for the future field of business ethics.

The first book on business ethics was published in 1937 by Frank Chapman Sharp and Philip G. Fox. The authors separated their book into four sections: fair service, fair treatment of competitors, fair price, and moral progress in the business world. This early textbook discusses ethical ideas based largely upon economic theories and moral philosophies. However, the section's titles indicate the authors also take different stakeholders into account. Most notably, competitors and customers are the main stakeholders emphasized, but the text also identifies stockholders, employees, business partners such as suppliers, and government agencies.[20] Although the theory of stakeholder orientation would not evolve for many more years, this earliest business ethics textbook demonstrates the necessity of the ethical treatment of different stakeholders.

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TABLE 1–1 Timeline of Ethical and Socially Responsible Concerns

1960s	1970s	1980s	1990s	2000s
Environmental issues	Employee militancy	Bribes and illegal contracting practices	Sweatshops and unsafe working conditions in third-world countries	Cybercrime
Civil rights issues	Human rights issues	Influence peddling	Rising corporate liability for personal damages (for example, cigarette companies)	Financial misconduct
Increased employee-employer tension	Covering up rather than correcting issues	Deceptive advertising	Financial mismanagement and fraud	Global issues, Chinese product safety
Changing work ethic	Disadvantaged consumers	Financial fraud (for example, savings and loan scandal)	Organizational ethical misconduct	Sustainability
Rising drug use	Transparency issues			Intellectual property theft

Source: Adapted from "Business Ethics Timeline," Ethics Resource Center, http://www.ethics.org/resource/business-ethics-timeline (accessed June 13, 2013).

The 1960s: The Rise of Social Issues in Business

During the 1960s American society witnessed the development of an anti-business trend because many critics attacked the vested interests that controlled the economic and political aspects of society—the so-called military–industrial complex. The 1960s saw the decay of inner cities and the growth of ecological problems such as pollution and the disposal of toxic and nuclear wastes. This period also witnessed the rise of consumerism—activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers. In 1962 President John F. Kennedy delivered a "Special Message on Protecting the Consumer Interest" that outlined four basic consumer rights: the right to safety, the right to be informed, the right to choose, and the right to be heard. These came to be known as the **Consumers' Bill of Rights**.

The modern consumer movement is generally considered to have begun in 1965 with the publication of Ralph Nader's *Unsafe at Any Speed* that criticized the auto industry as a whole, and General Motors Corporation (GM) in particular, for putting profit and style ahead of lives and safety. GM's Corvair was the main target of Nader's criticism. His consumer protection organization, popularly known as Nader's Raiders, fought successfully for legislation requiring automobile makers to equip cars with safety belts, padded dashboards, stronger door latches, head restraints, shatterproof windshields, and collapsible steering columns. Consumer activists also helped secure passage of consumer protection laws such as the Wholesome Meat Act of 1967, the Radiation Control for Health and Safety Act of 1968, the Clean Water Act of 1972, and the Toxic Substance Act of 1976.[21]

After Kennedy came President Lyndon B. Johnson and the "Great Society," a series of programs that extended national capitalism and told the business community the U.S. government's responsibility was to provide all citizens with some degree of economic stability, equality, and social justice. Activities that could destabilize the economy or discriminate against any class of citizens began to be viewed as politically unethical and unlawful.

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