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Thirteenth Edition

BUSINESS ETHICS

Ethical Decision Making and Cases



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John Fraedrich
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Australia • Brazil • Canada • Mexico • Singapore • United Kingdom • United States

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*To James Collins Ferrell and
George Collins Ferrell.*

—O.C. Ferrell

*To Emma, Matthew, Hyrum, and
Ammon, who are the future generation.*

—John Fraedrich

To Brett Nafziger.

—Linda Ferrell

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PREFACE

The 13th edition of *Business Ethics: Ethical Decision Making and Cases* is a complete and comprehensive revision and includes the most up-to-date content and cases as well as a new chapter on technology ethics. We provide current coverage of changes in the ethical, legal, social, and political environments. As the first ethics textbook with a managerial framework, we continue to address ethical decision making in an organizational context.

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 require the use of organizational resources and the advice of others. Our approach helps prepare students to understand and address ethical dilemmas in their careers. 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 13th edition provides new examples and cases that make foundational concepts come to life. Each chapter has been revised based on the latest research and best practices available. A new chapter, “Technology: Ethics and Social Responsibility Issues,” has been added to examine technology and its economic impact, understand how technology creates ethics issues, examine ways to manage ethics issues in technology, and explore the future of technology ethics. There are five new cases, and the remaining cases have been completely revised. Most of the case titles are new, reflect current developments, and are designed to engage students. The five new cases are Tesla Accelerates the Transition to Sustainable Energy; From the Outside In: Corporate Social Responsibility at Patagonia; TOMS Reinvents the One for One Movement; Home Depot Works on Stakeholder Relationships; and The Hershey Company’s Bittersweet Success. All of the new cases were developed with the author’s oversight and are crafted to provide students an opportunity to apply what they are learning to real-world business ethics challenges. They are also designed to enhance critical thinking skills.

Using a managerial framework, we explain how ethics can be integrated into strategic business decisions. This framework provides an *overview of the concepts, processes, 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 the 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. In this book, we do not 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 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*, 13th 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 three 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. Chapter 3, “Sustainability: Social and Ethical Dimensions,” is a chapter on sustainability that examines the ethical and social responsibility dimensions of sustainability.

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 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: mandated, core, and voluntary practices. Chapter 5, “Emerging Business Ethics Issues,” provides expanded coverage of ethical issues in the context of organizational ethics and highlights emerging ethical issues and dilemmas in business.

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 6, “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 7, “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 8, “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.

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 technology issues. Chapter 9, “Developing and Implementing an Effective Ethics Program,” has been refined and updated to discuss corporate best practices for developing effective ethics programs and examine the role of the ethics audit. 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, “Global Business Ethics Issues,” 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, “Ethical Leadership,” defines ethical leadership and discusses its impact on organizational culture. Reviewers indicated that they wanted more information provided on the importance of leadership to an ethical culture, and this chapter answers these requests. Chapter 12, “Technology: Ethics and Social Responsibility Issues,” examines technology and its economic impact as well as the ethical implications of technology.

Part 5 consists of 20 cases that bring reality into the learning process. Five of these cases are new to the 13th edition, and the remaining 15 have been revised and updated. 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 beginning of 2021. 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.
- Each chapter has a “Debate Issue” that reflects current ethical issues in business and challenges students to take a stand. These debate issues have been found to stimulate thoughtful discussion relating to content issues in the chapter. Topics of the debate issues include the downsides of technology, workplace bullying, white-collar crime, the impact of ethical conduct to financial performance, privacy in the workplace, and the impact of carbon emission restrictions.
- Each chapter has a “Business Ethics in the Real World” boxed feature that makes foundational concepts come to life through ethics issues in the real world of business. Topics include bid rigging, auditing, sustainability, drones, and more. Companies discussed include Ernst & Young, Airbus, and Patagonia, among others.
- 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. Each chapter concludes with a series of questions that allow students to test their EQ (Ethics Quotient).
- 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

MindTap. MindTap is a digital learning solution that powers students from memorization to mastery. MindTap is a personalized teaching experience that gives you complete ownership of your course. With it, you can challenge all students, build their confidence, and empower them to be unstoppable.

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Cengage Instructor Center. You can find the following teaching tools on the password-protected instructor site.

- **Case Notes.** Case notes for every chapter provide additional context around each case, discussion questions, and resource links. This tool includes talking points to help instructors lead student discussion and debate.
- **PowerPoints.** PowerPoint continues to be a very popular teaching device, and a special effort has been made to upgrade the PowerPoint program to enhance classroom teaching. Lecture slides, containing such content as tables, graphs, and data, have been created to provide instructors with up-to-date content to supplement in-class chapter discussion. Lecture slides for students are also available via MindTap.
- **Instructor's Manual.** The *Instructor's Manual* contains a wealth of information. Teaching notes for every chapter include a brief chapter summary, detailed lecture outline, chapter objectives, key terms, links to relevant YouTube videos along with suggested discussion questions, and notes for using the "Ethical Dilemma" and "Resolving Ethical Business Challenges" sections.
- **Role-Play Exercises.** The 13th edition provides eight behavioral simulation role-play exercises developed for use in the business ethics course. Role-play exercises simulate a complex, realistic, and timely business ethics situation. Students form teams and make decisions based on an assigned role. The role-play exercise complements and enhances traditional approaches to business learning experiences because it (1) gives students the opportunity to practice ethical decision-making; (2) recreates the power, pressures, and information that affect decision making at various levels of management; and (3) provides students with a team-based experience that enriches their understanding of group processes and dynamics. The role-play exercises 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.
- **Case Bank.** Four short cases are available on the Cengage Instructor Center: The Challenges of Expense Account Fraud, The Cocoa Exchange Finds a Sweet Spot in the Supply Chain, The Container Store: An Employee-Centric Retailer, and The Ethics Program at Eaton Corporation.
- **Additional Teaching Resources.** The Center for Ethical Organizational Cultures in the Raymond J. Harbert College of Business at Auburn University offers teaching resources, including cases and debate issues, that are not included with the textbook. These resources have been developed by the authors to allow open-source access to enhance customization in teaching. The Center for Ethical Organizational Cultures provides other information related to business ethics education. The teaching resources can be accessed at <https://harbert.auburn.edu/research-faculty/centers/center-for-ethical-organizational-cultures/index.html>.
- **Ethical Leadership Certification.** 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 encompasses six modules of online content (delivered through Brain-shark, containing videos, graphics, and a voiceover). 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://learning.thecpt.org/>.

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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
 – John Fraedrich
 – Linda Ferrell



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
- Describe the extent of ethical misconduct in the workplace and the pressures for unethical behavior

CHAPTER OUTLINE

- 1-1 Business Ethics Defined
- 1-2 Why Study Business Ethics?
 - 1-2a A Crisis in Business Ethics*
 - 1-2b Specific Issues*
 - 1-2c The Reasons for Studying Business Ethics*
- 1-3 The Development of Business Ethics
 - 1-3a Before 1960: Ethics in Business*
 - 1-3b The 1960s: The Rise of Social Issues in Business*
 - 1-3c The 1970s: Business Ethics as an Emerging Field*
 - 1-3d The 1980s: Business Ethics Reaches Maturity*
 - 1-3e The 1990s: Institutionalization of Business Ethics*
 - 1-3f The 2000s: Twenty-First Century Business Ethics*
 - 1-3g The 2010s: New Challenges in Business Ethics*
 - 1-3h The 2020s and Beyond*
- 1-4 Developing Organizational and Global Ethical Cultures
- 1-5 The Benefits of Business Ethics
 - 1-5a Ethics Contributes to Employee Commitment*
 - 1-5b Ethics Contributes to Investor Loyalty*
 - 1-5c Ethics Contributes to Customer Satisfaction*
 - 1-5d Ethics Contributes to Profits*
- 1-6 Our Framework for Studying Business Ethics



An Ethical Dilemma*

Madison slips into bed in the early hours of the morning after a long day at Alpha Beta Corporation. She automatically opens the TikTok app on her phone to watch a few videos. As she scrolls, a notification pops up of a new follower. The name is unfamiliar, so she taps the profile and browses.

As she continues, a video of someone recognizable appears. Madison watches it a second time and realizes it's her coworker, Mark. As the video plays, Mark is visible wearing an AB Corporation shirt, talking to friends, and playing truth or dare. It becomes apparent that Mark and his friends are visibly intoxicated. She turns up the volume and hears Mark talking about a possible merger/acquisition of AB as well as some salty language about AB and some of the managers.

"Alpha Beta really sucks. Work, work, work, for little pay. And I always have to listen to Terry, AB's golden child, about his problems, his hit list, and how he's going to be promoted or fire us if he doesn't get what he wants. He even told me AB is going to buy Viper Inc. With our customer database and Viper's IPTV and VPN third-party services, we'll kill the competition," slurred Mark. At the end of the video, Mark falls on the ground, taking others with him.

Though Madison doesn't particularly like Terry, she is concerned about the video, Mark's comments about Terry, his AB shirt, and that he spoke about something that was confidential. She knows, via the code of conduct and various meetings, that when you wear AB's logo, you represent the firm and not just yourself.

"That idiot," Madison murmurs, and then she notices the number of views on the video: several thousand.

The next day, Madison eats lunch with Caroline, her friend and coworker, and tells her all about Mark and the video.

"What do you think I should do?" asks Madison.

"Just keep quiet," Caroline says. "Mark was just stressed. Haven't you said things when you were drunk with someone videoing you? Besides, who are you going to squeal to? Remember, he who squeals usually gets made into pork patties as well," quipped Caroline.

"What if I send an anonymous email to Terry with the link to the TikTok video?" says Madison.

Caroline counters with, "Yeah, and Mark may or may not get fired. But remember that Terry and Mark were buddies in college. Who knows what Mark has on Terry and vice versa? And if someone reverse checks your email, you may not be as anonymous as you think," says Caroline.

"You would still be snitching, and Mark would still probably get fired. Think of his family. They are counting on him to support them. It was just a silly TikTok video. Who really cares that much about it? It's not worth anyone losing their job, is it?" adds Caroline.

"But if I don't speak up, more and more people will see the video, and it could be really damaging to the company. No one is supposed to know of the merger because it could cause employees to panic," said Madison.

Caroline pursed her lips and lowered her voice and says, "Look, I wasn't going to say anything, but that's actually my profile you found, not Mark's. I was with him at the bar filming the video with a few other coworkers. He doesn't even know I posted it. If you do anything, I may be on the chopping block."

What should Madison do in this situation?

QUESTIONS | EXERCISES

1. Identify the issues Madison has to resolve.
2. What is Madison's responsibility to the firm and Terry?
3. Do you think Madison should report Mark and Caroline?

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

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 public. 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, most businesses have a few major ethical lapses and are rarely recognized in the mass media for their good conduct. Companies doing business based on responsible and ethical decisions do not generate media interest. The reality of such inattention for rewarding good practices can lull firms and employees into complacency, leaving them vulnerable to ethical lapses. Minor lapses are often forgotten—only to be resurrected into larger, more impactful ethical or legal issues and dilemmas by media sources down the line. The result is bad press and distrust from stakeholders. Organizations need to develop an ethical culture and deal with instances of minor lapses in conduct.

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 organization, from the lowest level employee to the CEO.

Making good business ethical decisions is 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. You will hear the suggestion that business ethics is just doing what is right. All you have to do is remember your values and stick to them. 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 in business requires understanding and identifying issues, areas and types of risk, and approaches to making choices in an organizational environment. Businesses need to be vigilant and understand both their employees and other groups of employees outside the firm. They need to understand the drivers of positive behavior and how to help those who have difficulty in adhering to codes of conduct. 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 what, how, and why ethics is important 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. All organizations have to deal with misconduct, but some highly visible misconduct creates damaging publicity for firms. Wells Fargo experienced a loss of confidence when its sales department opened new accounts for clients without their knowledge.² The opportunity for the sales department to manipulate clients was created by an unethical culture that top managers supported. The result was loss of trust and closed accounts as well as loss of many potential clients.

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 tell you 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 that 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 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 will also help 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.

1-1 Business Ethics Defined

morals

A person’s personal philosophies about what is right or wrong

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

Specific and pervasive boundaries for behavior that should not be violated

values

Enduring beliefs and ideals that are socially enforced

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 relate to you and you alone. 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 and 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. Morals, values, and principles describe positive or good traits that are often applied to the business organization or industry. When they are identified and applied, they usually represent what is called “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 or morals. In our case, we are discussing decisions made in business by groups of people that represent the business organization. One can have business ethics such as healthcare, accounting, marketing, management, or financial ethics. But one can also have engineering, architectural, or publishing ethics as related to different disciplines or associations. The important concept in business ethics is that right and wrong behavior is defined by the group, which might be a company or an industry. Because the Supreme Court defined companies as having limited individual rights, it is logical such groups have an identity that includes core values.³ 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.”⁴ 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, Canon, Intel, and Volvo are highly profitable companies that have earned a reputation for ethical conduct.⁵ Second, to be successful, businesses must address the needs and desires of stakeholders. The good news is that the world's most ethical companies often have superior stock performance.⁶ 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.

ethics

Behavior or decisions made within a group's values or morals

1-2 Why Study Business Ethics?

1-2a A Crisis in Business Ethics

Business ethics has become a major concern. The Ethics & Compliance Initiative (ECI) conducts the Global Business Ethics Survey (GBES) that measures workplace integrity in leading world economies. Sample sizes average 1,000 employees per country and gather reliable data on key ethics and compliance outcomes to help identify and better understand the ethics issues that are important to employees. The GBES measures **workplace integrity** as the pressure to compromise organizational standards, observed misconduct, reporting of misconduct when observed, and retaliation against reports. Table 1-1 provides an overview of observed misconduct in the United States.

Business ethics decisions and activities have come under greater scrutiny by many different stakeholders, including consumers, employees, investors, government regulators, and special interest groups.⁷ Figure 1-1 shows the percentage of global respondents who say they trust a variety of businesses in various industries. Financial services 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.⁸ Decreased trust leads to a reduction in customer satisfaction and customer loyalty, which in turn can negatively impact the firm or industry.⁹

workplace integrity

The pressure to compromise organizational standards, observed misconduct, reporting of misconduct when observed, and retaliation against reports

TABLE 1-1 Observed Misconduct in the U.S. Workforce

Observed misconduct	49%
<i>Abusive behavior</i>	22%
<i>Lying to employees and external stakeholders</i>	25%
<i>Conflicts of interest</i>	23%
<i>Health violations</i>	22%
Pressure to compromise standards	30%
Report observed misconduct	81%
Experience retaliation for reporting	79%

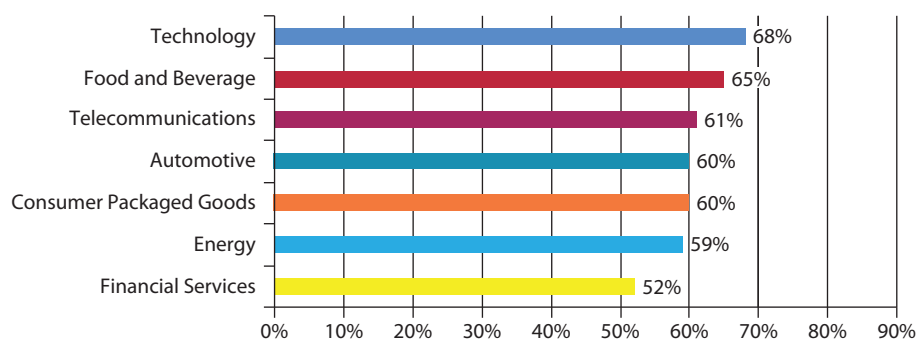
Source: Ethics and Compliance Initiative, Global Business Ethics Survey, *The State of Ethics & Compliance in the Workplace*, March 2021, (Arlington, VA: Ethics and Compliance Initiative, 2021), 16–22.

1-2b 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 knock-offs, and employee theft are all problems cited as potential risk areas. For example, former British Airway executive Steven Clark was indicted for accepting bribes in exchange for offering contracts at JFK airport to Ground Services International (GSI), a ground handling company. The bribery was concealed by phony invoices, and money was laundered through fake companies.¹⁰

Generally, ethics plays an important role in the public sector as well. In government or political ethics, several politicians and high-ranking officials have experienced significant negative publicity. Israeli prime minister Benjamin Netanyahu was indicted on bribery and fraud charges for exchanging official favors for positive publicity. Though the charges could potentially lead to a 10-year prison sentence, Netanyahu denies the charges and says he will remain as prime minister.¹¹ Some officials have even resigned in disgrace over ethical indiscretions. For example, Martin Sandoval, an Illinois senator of 16 years, resigned while under investigation for bribery and fraud.¹²

These examples demonstrate the legal aspect of business ethics. Within political ethics, those who do not violate the law but nonetheless are judged to be unethical can be expelled, censured, or reprimanded. For example, expulsion usually occurs if a government official is convicted of a crime. Former New York Congressman Charles B. Rangel was censured for improper solicitation of funds, inaccurate financial disclosure statements, and failure to pay

FIGURE 1-1 Global Trust in Industry Sectors

Source: Edelman, *Edelman Trust Barometer 2021*, <https://www.edelman.com/sites/g/files/aatuss191/files/2021-01/2021-edelman-trust-barometer.pdf> (accessed March 11, 2021).

taxes.¹³ A reprimand and fine can occur, as was the case for former California representative Laura Richardson who used official resources for personal purposes in her reelection campaign and faced a \$10,000 fine.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, William Singer, the founder of a college preparatory business, was the mastermind behind the largest college admissions prosecution ever by the Department of Justice. He accepted millions of dollars in order to falsify standardized test results and bribe athletic coaches and university administrators at universities such as Stanford and Yale. More than 50 people were charged in the admissions scandal, including celebrities, business leaders, and college coaches.¹⁵ Even nonprofits can be subject to ethical lapses. William Weatherby, former president of Christian-based nonprofit Feed My Lambs, stole more than \$500,000 for personal use. The funds were intended to go toward the education of underprivileged children.¹⁶ This incident highlights the need for greater accountability for nonprofit leaders as well.

Whether they are made in the realm of business, politics, science, or sports, most decisions are judged as 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.

1-2c 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 values. Many people believe if a company hires good people with strong values, then it will be a "good citizen" organization. But as 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 and dilemmas 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. A **moral dilemma** is defined as a situation where the person is faced with multiple choices, all of which are undesirable as defined by the person. A **value dilemma** is the same, only that the individual's beliefs are grounded in societal norms. 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 that defines bribery in global business. 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

moral dilemma

Two or more morals in conflict with one another

value dilemma

Two or more beliefs/ideals in conflict with one another

computer servers for these purposes during work hours. The right of employees versus employers is more controversial and 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. Failure to establish shared values and ethics codes will result in a wide range of conduct when faced with the same ethical issues.

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? Unilever Australia came under fire for an ice cream advertisement in New Zealand that said, "Ice cream makes you happy." Although Unilever Australia defended the tagline as puffery—an exaggerated claim that customers should not take seriously—the Advertising Standards Authority ordered the company to remove the ad because it could undermine the health of consumers by linking ice cream and level of happiness.¹⁹

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.

1-3 The Development of Business Ethics

The study of business ethics in North America has evolved through distinct stages and continues to evolve in the twenty-first century (see Table 1–2).

1-3a Before 1960: Ethics in Business

Before 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. Government relationships, social issues, and economic fairness were major concerns in the first half of the twentieth century.

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

TABLE 1-2 Timeline of Ethical and Socially Responsible Concerns

1960s	1970s	1980s	1990s	2000s	2010s and 2020s
Environmental issues	Employee militancy	Bribes and illegal contracting practices	Sweatshops and unsafe working conditions in third-world countries	Cybercrime	Uses of big data
Civil rights issues	Human rights issues	Influence peddling	Rising corporate liability for personal damages (for example, cigarette companies)	Financial misconduct	Social media and networking exposing new areas of vulnerability
Increased employee–employer tension	Covering up rather than correcting issues	Deceptive advertising	Financial mismanagement and fraud	Global issues, product safety, bribery	Tension between increasing transparency and protecting privacy
Changing work ethic	Disadvantaged consumers	Financial fraud (for example, savings and loan scandal)	Organizational ethical misconduct	Sustainability	Responsible use of technology in the workplace
Rising drug use	Transparency issues			Intellectual property theft	Diversity, equity, and inclusion

Source: Adapted from Ethics & Compliance Initiative, “Business Ethics and Compliance Timeline,” www.ethics.org/resources/free-toolkit/ethics-timeline (accessed December 6, 2019).

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, to work hard, and to 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 on 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.

1-3b The 1960s: The Rise of Social Issues in Business

During the 1960s, American society witnessed the development of an antibusiness 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

consumers’ bill of rights

From President John F. Kennedy’s 1962 “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