Ethics and Ethical Reasoning

People who work in business frequently encounter and must deal with on-the-job ethical issues. Being ethical is important to the individual, the organization, and the global marketplace, all the more so in today's business climate post-Enron. Managers and employees alike must learn how to recognize ethical dilemmas and know why they occur. In addition, they need to be aware of the role their own ethical character plays in their decision-making process, as well as the influence exerted by the ethical character of others. Finally, managers and employees must be able to analyze the ethical problems they encounter at work to determine an ethical resolution to these dilemmas.

This chapter focuses on these key learning objectives:

- Defining ethics and business ethics.
- Evaluating why businesses should be ethical.
- Knowing why ethical problems occur in business.
- Identifying managerial values as influencing ethical decision making.
- Recognizing the core elements of ethical character.
- Understanding stages of moral reasoning.
- Analyzing ethical problems using generally accepted ethics theories.

Most people are familiar with recent corporate scandals and the high-profile - executives sentenced and fined for their actions—Bernard Ebbers (WorldCom), - Dennis Kozlowski (Tyco), John and Timothy Rigas (Adelphia), and Kenneth Lay and Jeffrey Skilling (Enron). But how many know the names Betty Vinson, Troy Normand, David Myers, Deryck C. Maughan, Thomas W. Jones, Peter Scaturro, or Hannibal Crumpler?

Betty Vinson, a former manager in WorldCom's accounting department, was sentenced to five months in jail and five months of house arrest. Troy Normand, also a WorldCom accounting manager, received three years probation. David Myers, former WorldCom controller, pleaded guilty to fraud, conspiracy, and filing false documents. He was sentenced to one year and one day in prison. All three of these managers played a role in the largest accounting fraud in U.S. history.

Citigroup's bank operations were shut down in Japan after regulators found a lack of internal controls that had enabled employees to engage in fraudulent activities. Three executives were forced to resign in the wake of the scandal: Deryck C. Maughan, chairman of Citigroup's extensive international operations; Thomas W. Jones, head of the bank's asset management division; and Peter Scaturro, chief executive of private banking.

Hannibal Crumpler, former vice president and division controller, was the only HealthSouth manager convicted by jurors in the $2.7 billion accounting fraud. Crumpler was sentenced to 8 years in federal prison. Other HealthSouth executives pleaded guilty and the chief executive, Richard Scrushy, was acquitted on all charges.[1]

Not only have CEOs and CFOs been the targets of criminal investigations and held liable for their actions in recent ethics scandals, so too have lower-level managers involved in the operations or accounting departments of their firms. The Justice Department, the Securities and Exchange Commission, and federal and state prosecutors have aggressively pursued all employees involved in unethical or illegal activity, not just top executives.

How does a person know what behavior is right or wrong in the business world? What might lead an individual to act unethically? Does the root cause lie in a person's character or direction given by top management? Were these mid-level executives simply following orders? If so, should they be sent to jail or forced to resign for doing what their bosses told them to do? How can an employee refuse to follow orders, even when their boss is the CEO or CFO of the firm? These questions will be discussed later in this chapter.

With examples of the largest business frauds in the history of the United States as a backdrop, this chapter explores the meaning of ethics, explains why businesses should be ethical, identifies the different types of ethical problems that occur in business, and focuses on an ethical decision-making framework influenced by the core elements of an individual's ethical character. Chapter 6 then explains how ethical performance in business can be improved by strengthening the organization's culture and climate and by providing organizational safeguards, such as policies, training, and reporting procedures.

The Meaning of Ethics

Ethics is the conception of right and wrong conduct that tells us whether our behavior is moral or immoral, good or bad. Ethics deals with fundamental human relationships—how we think and behave toward others and how we want them to think and behave toward us. **Ethical principles** are guides to moral behavior. For example, in most societies lying to, stealing from, deceiving, and harming others are considered unethical and immoral. Honesty, keeping promises, helping others, and respecting the rights of others are considered ethically and morally desirable behavior. Such basic rules of behavior are essential for the preservation and continuation of organized life everywhere.

These notions of right and wrong come from many sources. Religious beliefs are a major source of ethical guidance for many. The family institution—whether two parents, a single parent, or a large family with brothers and sisters, grandparents, aunts, cousins, and other kin—imparts a sense of right and wrong to children as they grow up. Schools and schoolteachers, neighbors and neighborhoods, friends, admired role models, ethnic groups, and the ever-present electronic media and the Internet influence what we believe to be right and wrong in life. The totality of these learning experiences creates in each person a concept of ethics, morality, and socially acceptable behavior. This core of ethical beliefs then acts as a moral compass that helps to guide a person when ethical puzzles arise.

Ethical ideas are present in all societies, organizations, and individual persons, although they may vary greatly from one to another. Your ethics may not be the same as your neighbor's; one particular religion's notion of morality may not be identical to another's; and what is considered ethical in one society may be forbidden in another society. These differences raise the important and controversial issue of **ethical relativism**, which holds that ethical principles should be defined in the context of various periods in history, a society's traditions, the special circumstances of the moment, or personal opinion. In this view, the meaning given to ethics would be relative to time, place, circumstance, and the person involved. In that case, there would be no universal ethical standards on which people around the globe could agree. But for companies conducting business in several societies at one time, whether or not (and which) ethics are relevant can be vitally important; we discuss those issues in more detail in Chapter 6.

For the moment, we can say that despite the diverse systems of ethics that exist within our own society and throughout the world, all people everywhere do depend on ethical systems to tell them whether their actions are right or wrong, moral or immoral, approved or disapproved. Ethics, in this sense, is a universal human trait, found everywhere.

What Is Business Ethics?

Business ethics is the application of general ethical ideas to business behavior. Business ethics is not a special set of ethical ideas different from ethics in general and applicable only to business. If dishonesty is considered to be unethical and immoral, then anyone in business who is dishonest with stakeholders—employees, customers, stockholders, or competitors—is acting unethically and immorally. If protecting others from harm is considered to be ethical, then a company that recalls a dangerously defective product is acting in an ethical way. To be considered ethical, business must draw its ideas about what is proper behavior from the same sources as everyone else. Business should not try to make up its own definitions of what is right and wrong. Employees and managers may believe at times that they are permitted or even encouraged to apply special or weaker ethical rules to business situations, but society does not condone or permit such an exception. Evidence of unethical behavior at work is shown in Figure 5.1.

Why Should Business Be Ethical?

Why should business be ethical? What prevents a business firm from piling up as much profit as it can, in any way it can, regardless of ethical considerations? Figure 5.2 lists the major reasons why business firms should promote a high level of ethical behavior.

Meet Demands of Business Stakeholders

We mentioned one reason businesses should be ethical when discussing social responsibility in Chapter 3. Organizational stakeholders demand business to exhibit high levels of ethical performance and social responsibility. In a 10-country poll of public opinion, people in 9 of the 10 countries (Australia, Canada, Great Britain, Mexico, Japan, Germany, South Africa, Russia, and the United States, with only the Chinese people disagreeing) preferred setting higher ethical standards and improving society over the more traditional corporate goals of making a profit, paying taxes, creating jobs, and obeying the law.[2]

Some businesses know that meeting stakeholders' expectations is good business. When a company upholds ethical standards, consumers may conduct more business with the firm and the stockholders may benefit as well, as illustrated in the story of the Co-operative Bank, a retail bank based in Manchester, United Kingdom, whose slogan is "Customer led, ethically guided."

> The Co-operative Bank revealed that it had turned away $12 million in business annually from firms whose policies violated the bank's ethical standards, saying the loss was more than made up by income from consumers who supported the bank's strong ethical stand. The bank's policies precluded it from lending funds to firms that were involved in animal testing, nuclear power, unfair labor practices, or weapons.[3]

Enhance Business Performance

Some people argue that another reason for businesses to be ethical is that it enhances the firm's performance, or simply: *ethics pays.*

> A study conducted by a DePaul University accounting professor found a statistically significant linkage between management commitment to strong controls that emphasize ethically responsible behavior on the one hand and favorable corporate financial performance on the other. Further support for the relationship between being ethical and being profitable was found in a study conducted by the Institute for Business Ethics in the United Kingdom. Three of the four measures used in the study—economic value added, market value added, and price/earnings ratio—were stronger for companies that had a code of ethics than for those that did not. The study data also indicated that firms with an explicit commitment to doing business ethically had produced profit/turnover ratios 18 percent higher than those without a similar commitment.[4]

Being ethical imparts a sense of trust, which promotes positive alliances among business partners. If this trust is broken, the unethical party may be shunned and ignored. This situation occurred when Malaysian government officials gave the cold shoulder to executives of a French company. When asked why they were being unfriendly, a Malaysian dignitary replied, "Your chairman is in jail!" The nurturing of an ethical environment and the development of ethical safeguards, discussed in the next chapter, can be critical influences in positively affecting a firm's financial performance.

Comply with Legal Requirements

Doing business ethically is also often a legal requirement. Two recent laws, in particular, provide direction for companies interested in being more ethical in their business operations. Although they apply only to U.S.-based firms, these legal requirements also provide a model for firms that operate outside the United States.

The first is the **U.S. Corporate Sentencing Guidelines**, which provides a strong incentive for businesses to promote ethics at work.[5] The sentencing guidelines come into play when an employee of a firm has been found guilty of criminal wrongdoing and the firm is facing sentencing for the criminal act, since the firm is responsible for actions taken by its employees. To determine the sentencing, the judge computes a culpability (degree of blame) score using the guidelines, based on whether or not the company has:

1. Established standards and procedures to reduce criminal conduct
2. Assigned high-level officer(s) responsibility for compliance.
3. Not assigned discretionary authority to "risky" individuals.
4. Effectively communicated standards and procedures through training.
5. -Taken reasonable steps to ensure compliance—monitor and audit systems, maintain and publicize reporting system.
6. Enforced standards and procedures through disciplinary mechanisms.
7. -Following detection of offense, responded appropriately to prevent recurrence.

Companies that have taken these steps, or most of them, receive lesser sentences, such as lower fines.

> The impact of the sentencing guidelines was felt by Hoffman-LaRoche. The multinational pharmaceutical company pleaded guilty to a price-fixing conspiracy in the vitamins market that spanned nine years and was fined $500 million. Although this was a significant financial blow to the firm, the government noted that the sentencing guidelines permitted a fine as high as $1.3 billion against Hoffman-LaRoche. The sentence was reduced because Hoffman-LaRoche had met many of the sentencing guidelines directives.

In 2005 the U.S. Supreme Court weakened this legal requirement when the court ruled that federal judges were not required to follow the federal sentencing guidelines but could rely upon them in an advisory role.[6] However, many firms have developed and maintain ethics and compliance programs based on the Sentencing Commission's "seven steps."

Another legal requirement imposed upon U.S. businesses is the **Sarbanes-Oxley Act** of 2002.[7] Born from the ethics scandals at Enron, WorldCom, Tyco, and others, this law sought to ensure that firms maintained high ethical standards in how they conducted and monitored business operations. Specifically, the Act addresses the following issues:

- The firm's audit committee is entrusted with auditor oversight with all independent directors on the committee.
- Certain nonaudit services by auditors to clients are banned, nonaudit services must be preapproved by the audit committee, the lead auditor must be rotated every five years, and auditors report to the audit committee.
- The CEO and CFO must sign off on financial statements as accurate and fair and must repay bonuses if a restatement of financials is undertaken.

- A Public Company Accounting Oversight Board is established.
- Firms are not permitted to offer loans to their executive officers or board of directors.
- SEC rules will create guidelines for internal controls and financial reporting procedures; require the adoption of, or waiver for, a code of ethics for the board; mandate that a financial expert serve on the board; and compel the firm to state its financial condition in plain English on a rapid or current basis.

After passage of the Sarbanes-Oxley Act, many business leaders grumbled over the significant costs incurred to comply with the Act's various requirements. Experts estimated that compliance costs were likely to total $7 billion annually for firms governed by the legislation. Even European financial officers were critical of the Act, as well as its European counterpart, the International Financial Reporting Standards. Seven out of eight of 236 European CFOs questioned believed that these regulations offered no positive benefits. Forty percent believed them to be an outright hindrance, increasing time and cost commitments for no positive results.[8]

However, a columnist for the *Financial Times,* Morgen Witzel, argued that "there are many benefits to be gained from a positive approach to regulation." He mentioned better investor and customer relations, enhanced internal processes, greater efficiencies, and the opportunity for proactive organizations to shape the regulatory agenda. These benefits from compliance are shown in Exhibit 5.A.[9] The Sarbanes-Oxley Act is discussed further in Chapter 15.

Prevent or Minimize Harm

Another reason businesses and their employees should act ethically is to prevent harm to the general public and the corporation's many stakeholders. One of the strongest ethical principles is stated very simply: *Do no harm.* A company that is careless in disposing of toxic chemical wastes that cause disease and death is breaking this ethical injunction. Many ethical rules operate to protect society against various types of harm, and businesses are expected to observe these commonsense ethical principles.

[illegible]

The ACFE report uncovered 508 cases of occupational fraud totaling more than $761 million in losses to American businesses. The typical business lost about 6 percent of its annual revenues to fraud each year, according to the report. In total ACFE estimated that U.S. businesses lost about $660 billion annually due to employee fraud. In addition, losses due to theft by low-level employees were a critical problem. Companies with fewer than 100 employees suffered average losses of $98,000 annually due to employee theft.[10]

Promote Personal Morality

A final reason for promoting ethics in business is a personal one. Most people want to act in ways that are consistent with their own sense of right and wrong. Being pressured to contradict their personal values creates emotional stress for people. Knowing that one works in a supportive ethical climate contributes to one's sense of psychological security. According to a LRN study, a California-based legal and ethics training company, 94 percent of employees said it was critical or important that the company they work for is ethical. An Ethics Resource Center report noted that when employees "perceive that others are held accountable for their actions," the overall employee satisfaction at work is 32 percent higher.[11]

Why Ethical Problems Occur in Business

If businesses have so many reasons to be ethical, why do ethical problems occur? Although not necessarily common or universal, ethical problems occur frequently in business. Finding out what causes them is one step toward minimizing their impact on business operations and on the people affected. Some of the main reasons are summarized in Figure 5.3 and are discussed next.

Personal Gain and Selfish Interest

Desire for personal gain, or even greed, causes some ethics problems. Businesses sometimes employ people whose personal values are less than desirable. They will put their own welfare ahead of all others, regardless of the harm done to other employees, the company, or society.

A manager or employee who puts his or her own self-interest above all other considerations is called an **ethical egoist**. Self-promotion, a focus on self-interest to the point of selfishness, and greed are traits commonly observed in an ethical egoist. The ethical egoist tends to ignore ethical principles accepted by others, believing that ethical rules are made for others. *Altruism*—acting for the benefit of others when self-interest is sacrificed—is seen to be sentimental or even irrational. "Looking out for number one" is the ethical egoist's motto, as the following stories show.[12]

> One of the most egregious ethical egoists in recent history was Dennis Kozlowski, former CEO of Tyco. New York prosecutors charged Kozlowski with stealing more than $170 million from the company. Kozlowski also was accused of borrowing $270 million from a company loan program intended to help him pay taxes, but he improperly used 90 percent of this money for personal expenses, such as yachts, jewelry, fine art, and real estate. Kozlowski was sentenced to up to 25 years in a New York state prison in 2005.[13]

Competitive Pressures on Profits

When companies are squeezed by tough competition, they sometimes engage in unethical activities to protect their profits. This may be especially true in companies whose financial performance is already substandard. Research has shown that poor financial performers and companies with financial uncertainty are more prone to commit illegal acts.

> Senior executives at Samsung of South Korea, the world's largest memory-chip maker by revenue, pleaded guilty to a U.S. price-fixing charge and were ordered to pay $300 million in fines for its role in a global cartel designed to drive up prices for electronic memory. The U.S. Justice Department uncovered evidence that Samsung and other firms under investigation repeatedly met to discuss prices on dynamic random-access memory chips, agreed on the prices to be quoted to customers, and exchanged information about sales volume in order to stabilize, control and bolster the industry, which had experienced sharp swings in pricing and production in the past few years.[14]

However, a precarious financial position or intense competition in the global marketplace are not the only reasons for illegal and unethical business behavior, because profitable companies and their executives can also act contrary to ethical principles. In fact, it may be simply a single-minded drive for profits, regardless of the company or individual's financial condition, that creates a climate for unethical activity.

> [illegible]

Conflicts of Interest

Another reason ethical problems occur in business is because of conflicts of interest. A **conflict of interest** occurs when an individual's self-interest conflicts with acting in the best interest of another, when the individual has an obligation to do so.[16] For example, if a purchasing agent directed her company's orders to a firm from which she had received a valuable gift, even if this firm did not offer the best quality or value, she would be guilty of a conflict of interest. In this situation, she would have acted to benefit herself, rather than in the best interests of her employer. Conflicts of interest are normally considered unethical, because a failure to disclose a conflict of interest represents deception and may hurt the person or organization on whose behalf judgment has been exercised. Many ethicists believe that even the *appearance* of a conflict of interest should be avoided, because it undermines trust.

Both individuals and organizations can find themselves or place themselves in a conflict of interest. In recent years, much attention has been focused on organizational conflicts of interest in the accounting profession. When an accounting firm audits the books of a public company, it has an obligation to shareholders to provide an honest account of the company's financial health. Sometimes, though, accounting firms may be tempted to overlook irregularities to increase their chances of attracting lucrative consulting work from the same company. This type of conflict is now significantly curtailed by provisions in the Sarbanes-Oxley Act, which limit the right of accounting firms to provide both audit and consulting services to the same client

Many of the recent cases of financial fraud are illustrations of conflicts of interest, in which self-enrichment by senior managers was in conflict with the long-term viability of the firm and the best interests of employees, customers, suppliers, and stockholders. Most organizations seek to guard against conflicts of interest by including prohibitions of this practice in their code of ethics, as discussed in Chapter 6.

Cross-Cultural Contradictions

Some of the knottiest ethical problems occur as corporations do business in other societies where ethical standards differ from those at home. Today, the policy makers and strategic planners in all multinational corporations, regardless of the nation where they are headquartered, face this kind of ethical dilemma. Consider the following situation:

> The pesticide methyl parathion is officially banned or restricted in many countries including the United States, China, Malaysia, Indonesia, and Cambodia. The World Health Organization classified methyl parathion as "extremely hazardous." The chemical can be fatal for humans if swallowed, inhaled, or absorbed through the skin. Yet, methyl parathion and nearly 50 other dangerous pesticides are being sold in Thailand and Vietnam and, from there, being illegally exported to Cambodia. Cambodian farmers argue that they need the pesticides to increase agricultural production, despite the lack of protective safety equipment or procedures for properly disposing of used

containers. Multinational companies that manufacture the chemicals say that they are not responsible because they do not directly market to Cambodia.[17]

This episode raises the issue of ethical relativism, alluded to earlier in this chapter. *Although the foreign sales of methyl parathion to Thailand and Vietnam were legal, were they ethical? Is dumping unsafe products ethical if it is not forbidden by the receiving nation, especially if the companies know that the products are exported to another country where farmers there mishandle the product and use it without safety precautions? Are multinational companies ethically responsible for what happens to their products, even though they are being sold legally? What or whose ethical standards should be the guide?*

As business becomes increasingly global, with more and more corporations penetrating overseas markets where cultures and ethical traditions vary, these questions will occur more frequently.

The Core Elements of Ethical Character

The ethical analysis and resolution of ethical dilemmas in the workplace depend on the values, virtues, personal character, and spirituality of managers and other employees. Good ethical practices not only are possible, but also become normal with the right combination of these components.

Managers' Values

Managers are one of the keys to whether a company and its employees will act ethically or unethically. As major decision makers, they have more opportunities than others to create an ethical tone for their company. The values held by managers, especially top-level managers, serve as models for others who work in any organization.

The ethical scandals that rocked corporate America and were felt throughout the global marketplace have led to a widespread crisis of confidence in business leadership. In a survey of 22,000 people in 21 countries, only politicians ranked as less trustworthy than managers of large companies, who finished behind lawyers and journalists. Of the 15 social organizations listed in a Gallup poll, people's confidence in big business was ranked next to last, just ahead of HMOs. The public reportedly had more confidence in churches, the Supreme Court, television news and newspapers, Congress, and organized labor than in business.

In a Gallup poll conducted every 10 years, perception of business executives' ethics has steadily fallen. This distrust has spread to specific industries; for example, 74 percent of those polled believed that manipulation by the oil industry caused increasing gas prices. Joining oil and gas industries at the bottom of the list were the federal government and the sports industry. And this distrust spread to Europe where nearly 80 percent of British people believe that corporate executives cannot be trusted.[18]

Differences in ethical values were found among European employees. Researchers found that workers in the U.K. are among the most honest in Europe, avoiding ethical breaches that are more common in France, Germany, and Spain. Only 14 percent of U.K. workers approve of taking office supplies home for personal use—the lowest of workers from all 12 countries surveyed—and only 21 percent approve of using office software at home—second lowest in the survey.[19]

However, across the Atlantic, studies generally show that most U.S. managers focus on themselves and are primarily concerned about being competent. They place importance on values such as having a comfortable and exciting life and being capable, intellectual, and responsible. Researchers also found that new CEOs tend to be more self-interested and short-term focused, possibly in an effort to immediately drive up company profits, rather than valuing long-term investments in research and development or capital expenditures. However, some managers show a strong concern for values that include others, living in a world at peace, or seeking equality among people. One out of four managers emphasizes this latter set of values—moral values. These managers place greater importance on the value of forgiving others, being helpful, and acting honestly.[20]

But what about future managers? In a poll conducted by Duke University every three years, MBA students across the country consistently rank ethics (having strong moral principles) as their third most important goal, behind marriage and health. Another survey of over 2,100 graduate business students found that 79 percent believed that a company must weigh its impact on society. This impact could be seen in the company's environmental responsibility, practices of equal opportunity, treatment of workers' families, and other ethical issues. A survey of senior-level college students across the United States found that they want to have fun on the job but also seek employers that contribute to society and make ethics a priority.[21]

Virtue Ethics

Some philosophers believe that the ancient Greeks, specifically Aristotle, developed the first ethical theory, which was based on values and personal character. Commonly referred to as **virtue ethics**, it focuses on character traits that a good person should possess, theorizing that these values will direct the person toward good behavior. Virtue ethics is based on a way of being and on valuable characteristics rather than on rules for correct behavior. Moral virtues are habits that enable a person to live according to reason, and this reason helps the person avoid extremes. Aristotle argued, "Moral virtue is a mean between two vices, one of excess and the other of deficiency, and it aims at hitting the mean in feelings, desires, and action."[22]

Moral values acknowledged by Aristotle include courage, temperance, justice, and prudence. St. Thomas Aquinas added the Christian values of faith, hope, and charity to the list of morally desirable virtues. Aquinas believed that these additional values were essential for a person to achieve a union with God, which was a significant purpose in Aquinas's notion of virtue ethics. Additional virtues include honesty, compassion, generosity, fidelity, integrity, and self-control.

Personal Character, Spirituality, and Moral Development

Clarence Walton, a seasoned observer of managerial behavior, noted that personal character is one of the keys to higher ethical standards in business. People of integrity produce organizations with integrity. When they do, they become moral managers—those special people who make organizations and societies better. Others speculate that there is a close connection between ethical leadership and a person's belief system or values.

Personal Spirituality

Personal spirituality, that is, a personal belief in a supreme being, religious organization, or the power of nature or some other external, life-guiding force, has always been a part of the human makeup. In 1953 *Fortune* published an article titled "Businessmen on Their Knees" and claimed that American businessmen (women generally were excluded from the executive suite in those days) were taking more notice of God. In the past 10 years, cover stories in *Fortune, BusinessWeek,* and other business publications have documented a resurgence of spirituality or religion at work.

Forty-eight percent of Americans polled said that they have had an occasion to talk about their religious faith in the workplace on a daily basis. And 78 percent admitted that they felt a need in their life for spiritual growth, up from only 20 percent five years later. Recently, efforts appear to be on the rise to integrate people's work with their spirituality.[23] Most companies use chaplains on an outsourced basis from secular employee-assistance programs or from chaplaincy providers such as Marketplace Ministries, a nonprofit concern that provides about 1,000 Protestant chaplains to more than 240 companies nationwide.

Across the country, thousands of top executives begin their day at a breakfast prayer meeting. In Minneapolis, hundreds of business executives gather for lunch and listen to consultants draw business solutions from the Bible. There are over 10,000 Bible and prayer groups that regularly meet in the workplace, according to the Fellowship for Companies for Christ International.[24]

Research conducted by the McKinsey&Company's Australia office reported that when companies engaged in spiritual techniques for their employees, productivity improved and turnover was reduced. Employees who worked for organizations they considered to be spiritual were less fearful on the job, less likely to compromise their values and act unethically, and more able to become committed to their work. At Elf Atochem, a subsidiary of the French oil company Elf-Aquitane, teaching people how to be spiritual improved productivity, employee relations, and customer service. The firm reported that it saved as much as $2 million in operating costs by showing its employees how to be more inspired about their work.[25]

However, others disagree with the trend toward a stronger presence of religion in the workplace. They hold the traditional belief that business is a secular, that is, nonspiritual, institution. They believe that business is business, and spirituality is best left to churches, synagogues, mosques, and meditation rooms, not corporate boardrooms or shop floors. This, of course, reflects the traditional separation of church and state in the United States and many other countries.

Others note that ethical misconduct or greed is often cloaked in the robes of religion. Scandals involving religious leaders, such as sexual abuse by Catholic priests or fraud committed by self-interested television evangelists, have caused many people to be wary of religion whether at work or elsewhere.

Beyond the philosophical opposition to bringing spirituality into the business environment, procedural challenges arise. *Whose spirituality should be promoted? The CEO's? With greater workplace diversity comes greater spiritual diversity, so which organized religion's prayers should be recited or ceremonies enacted? How should businesses handle employees who are agnostics (who do not follow any religion)?* Opponents of spirituality at work point to the myriad of implementation issues as grounds for keeping spirituality out of the workplace. Nonetheless, many believe that religion is making inroads into the workplace. Employees are becoming more accustomed to seeing a Bible on a work desk or hearing someone at work respond to a casual "How's it going?" with an earnest "I'm blessed."

Just as personal values and character strongly influence employee decision making and behavior in the workplace, so does personal spirituality, from all points on the religious spectrum, impact how businesses operate.

Managers' Moral Development

Taken together, personal values, character, and spirituality exert a powerful influence on the way ethical work issues are treated. Since people have different personal histories and have developed their values, character, and spirituality in different ways, they are going to think differently about ethical problems. This is as true of corporate managers as it is of other people. In other words, the managers in a company are likely to be at various **stages of moral development**. Some will reason at a high level, others at a lower level.

A summary of the way people grow and develop morally is diagrammed in Figure 5.4. From childhood to mature adulthood, most people move steadily upward in their moral reasoning capabilities from stage 1. Over time, they become more developed and are capable of more advanced moral reasoning, although some people never use the most advanced stages of reasoning in their decision processes.

At first, individuals are limited to an ego-centered focus (stage 1), fixed on avoiding punishment and obediently following the directions of those in authority. (The word *ego* means "self.") Slowly and sometimes painfully, the child learns that what is considered to be right and wrong is pretty much a matter of reciprocity: "I'll let you play with my toy, if I can play with yours" (stage 2). At both stages 1 and 2, however, the individual is mainly concerned with his or her own pleasure. The self-dealing of Dennis Kozlowski, described earlier in this chapter, exemplifies ego-centered reasoning. By taking money from his company for his personal use, this executive acted to benefit himself and his immediate family, without apparent concern for others.

In adolescence the individual enters a wider world, learning the give-and-take of group life among small circles of friends, schoolmates, and similar close-knit groups (stage 3). Studies have reported that interaction within groups can provide an environment that improves the level of moral reasoning. This process continues into early adulthood. At this point, pleasing others and being admired by them are important cues to proper behavior. Most people are now capable of focusing on other-directed rather than self-directed perspectives. When a manager "goes along" with what others are doing or what the boss expects, this would represent stage 3 behavior. On reaching full adulthood—the late teens to early 20s in most modern, industrialized nations—most people are able to focus their reasoning according to society's customs, traditions, and laws as the proper way to define what is right and wrong (stage 4). At this stage, a manager would seek to follow the law; for example, he or she might choose to curtail a chemical pollutant because of government regulations mandating this.

Stages 5 and 6 lead to a special kind of moral reasoning. At these highest stages, people move above and beyond the specific rules, customs, and laws of their own societies. They are capable of basing their ethical reasoning on broad principles and relationships, such as human rights and constitutional guarantees of human dignity, equal treatment, and freedom of expression. In the highest stage of moral development, the meaning of right and wrong is defined by universal principles of justice, fairness, and the common rights of all humanity. For example, at this stage, an executive might decide to pay wages above the minimum required by law, because this was the morally just thing to do.[26]

Recently, researchers have found that most managers typically rely on criteria associated with reasoning at stages 3 and 4, although some scholars argue that these results may be slightly inflated.[27] Although they may be capable of more advanced moral reasoning that adheres to or goes beyond society's customs or law, managers' ethical horizons most often are influenced by their immediate work group, family relationships, or compliance with the law. The development of a manager's moral character can be crucial to a company. Some ethics issues require managers to move beyond selfish interest (stages 1 and 2), beyond company interest (stage 3 reasoning), and even beyond sole reliance on society's customs and laws (stage 4 reasoning). What is needed is a manager whose personal character is built on a caring attitude toward all affected, recognizing others' rights and their essential humanity (a combination of stage 5 and 6 reasoning). The moral reasoning of upper-level managers, whose decisions affect companywide policies, can have a powerful and far-reaching impact both inside and outside the company.

Analyzing Ethical Problems in Business

Underlying an ethical decision framework is a set of universal ethical values or principles, notions that most people anywhere in the world would hold as important. While this list of ethical principles may not be exhaustive, five values seem to be generally accepted and are helpful in most ethical dilemmas: do no harm, be fair and just, be honest, respect others' rights, and do your duty/act responsibly. In applying these principles, business managers and employees need a set of decision guidelines that will shape their thinking when on-the-job ethics issues occur. The guidelines should help them (1) identify and analyze the nature of an ethical problem and (2) decide which course of action is likely to produce an ethical result. The following three methods of *ethical reasoning* can be used for these analytical purposes, as summarized in Figure 5.5.

Utility: Comparing Benefits and Costs

One approach to ethics emphasizes *utility,* the overall amount of good that can be produced by an action or a decision. This ethical approach is called **utilitarian reasoning**. It is often referred to as cost-benefit analysis because it compares the costs and benefits of a decision, a policy, or an action. These costs and benefits can be economic (expressed in dollar amounts), social (the effect on society at large), or human (usually a psychological or emotional impact). After business managers add up all the costs and benefits and compare them with one another, the net cost or the net benefit should be apparent. If the benefits outweigh the costs, then the action is ethical because it produces the greatest good for the greatest number of people in society. If the net costs are larger than the net benefits, then it is probably unethical because more harm than good is produced.

The main drawback to utilitarian reasoning is the difficulty of accurately measuring both costs and benefits. Some things can be measured in monetary terms—goods produced, sales, payrolls, and profits—but other items are trickier, such as employee morale, psychological satisfactions, and the worth of a human life. Human and social costs are particularly difficult to measure with precision. But unless they can be measured, the cost-benefit calculations will be incomplete, and it will be difficult to know whether the overall result is good or bad, ethical or unethical. Another limitation of utilitarian reasoning is that the majority may override the rights of those in the minority. Since utilitarian reasoning is primarily concerned with the end results of an action, managers using this reasoning process often fail to consider the means taken to reach the end.

Despite these drawbacks, cost-benefit analysis is widely used in business. Because this method works well when used to measure economic and financial outcomes, business managers sometimes are tempted to rely on it to decide important ethical questions without being fully aware of its limitations or the availability of still other methods that may improve the ethical quality of their decisions.

Is it ethical to close a plant? Using utilitarian reasoning, the decision maker must consider all the benefits (improving the company bottom line, higher return on investment to the investors, etc.) versus the costs (employee layoffs, reduced economic activity to the local community, etc.).

Rights: Determining and Protecting Entitlements

Human rights are another basis for making ethical judgments. A right means that a person or group is entitled to something or is entitled to be treated in a certain way. The most basic human rights are the right to life, safety, free speech, freedom, to be informed, due process, property, and others. Denying those rights or failing to protect them for other persons and groups is normally considered to be unethical. Respecting others, even those with whom we disagree or dislike, is the essence of human rights, provided that others do the same for us. This approach to ethical reasoning holds that individuals are to be treated as valuable ends in themselves just because they are human beings. Using others for your own purposes is unethical if, at the same time, you deny them their goals and purposes.

The main limitation of using rights as a basis of ethical reasoning is the difficulty of balancing conflicting rights. For example, an employee's right to privacy may be at odds with an employer's right to protect the firm's assets by testing the employee's honesty. Rights also clash when U.S. multinational corporations move production to a foreign nation, causing job losses at home but creating new jobs abroad. In such cases, whose job rights should be respected?[28]

[illegible]

For example, is it ethical to close a plant? Using human rights reasoning, the [illegible] to the freedom to make decisions they believe are within their duty to the company, etc.).

Justice: Is It Fair?

A third method of ethical reasoning concerns **justice**. A common question in human affairs is, Is it fair or just? Employees want to know if pay scales are fair. Consumers are interested in fair prices when they shop. When new tax laws are proposed, there is much debate about their fairness—where will the burden fall, and who will escape paying their fair share?

Justice, or fairness, exists when benefits and burdens are distributed equitably and according to some accepted rule. For society as a whole, social justice means that a society's income and wealth are distributed among the people in fair proportions. A fair distribution does not necessarily mean an equal distribution. Most societies try to consider people's needs, abilities, efforts, and the contributions they make to society's welfare. Since these factors are seldom equal, fair shares will vary from person to person and group to group. Justice reasoning is not the same as utilitarian reasoning. A person using utilitarian reasoning adds up costs and benefits to see if one is greater than the other; if benefits exceed costs, then the action would probably be considered ethical. A person using justice reasoning considers who pays the costs and who gets the benefits; if the shares seem fair (according to society's rules), then the action is probably just.

For example, is it ethical to close a plant? Using justice reasoning, a decision maker must consider the distribution of the benefits (to the firm, its investors, etc.) versus the costs (to the displaced employees, local community, etc.). To be just, the firm closing the plant might decide to accept additional costs for job retraining and outplacement ser-vices for the benefit of the displaced workers. The firm might also decide to make contributions to the local community over some period of time to benefit the local economy, in effect to balance the scales of justice in this situation.

Applying Ethical Reasoning to Business Activities

Anyone in the business world can use these three methods of ethical reasoning to gain a better understanding of ethical issues that arise at work. Usually, all three can be applied at the same time. Using only one of the three methods is risky and may lead to an incomplete understanding of all the ethical complexities that may be present. It also may produce a lopsided ethical result that will be unacceptable to others. Figure 5.6 diagrams the kind of analytical procedure that is useful to employ when one is confronted with an ethical problem or issue.

Once the ethical analysis is complete, the decision maker should ask the question: Do all three ethics approaches lead to the same decision? If so, then the decision or policy or activity is probably ethical. If answers to all three are no, then you probably are looking at an unethical decision, policy, or activity. The reason you cannot be absolutely certain is that different people and groups (1) may honestly and genuinely use different sources of information, (2) may measure costs and benefits differently, (3) may not share the same meaning of justice, or (4) may rank various rights in different ways. Nevertheless, any time an analyst obtains unanimous answers to these three questions, it indicates that a strong case can be made for either an ethical or an unethical conclusion.

What happens when the three ethical approaches do not lead to the same conclusion? A corporate manager or employee then has to assign priorities to the three methods of ethical reasoning. What is most important to the manager, to the employee, or to the organization—utility, rights, or justice? What ranking should they be given? A judgment must be made, and priorities must be determined. These judgments and priorities will be strongly influenced by a company's culture and ethical climate. The type of ethical reasoning chosen also depends heavily on managers' values, especially those held by top management, and on the personal character of all decision makers in the company. Some will be sensitive to people's needs and rights; others will put themselves or their company ahead of all other considerations.

Whistle-Blowing

Sometimes when employees work through an ethical decision process, they believe that their organization or industry is acting unethically. Many organizations developed mechanisms for employees to use to "blow the whistle" internally and enable the organization or industry group to investigate and possibly address the unethical situation. When these opportunities are not available or fail to respond to the issue, an employee may decide to become an external **whistle-blower**, that is, speak with the media or appropriate government agency. Whistle-blowing can be quite challenging and potentially hazardous to one's career.

The Consequences of Whistle-Blowing

[illegible]

[illegible]

Following the 2003 Columbia space shuttle disaster, NASA commissioned a study to investigate the whistle-blowing climate in the organization. Disappointingly, they found a "high level of fear" regarding whistle-blowing activity. While employees were committed to safety, they pointed to a culture where delivering bad news was unacceptable.[30]

Government Action and the Whistle-Blower

Governmental efforts recently have focused on the role of the whistle-blower. The SEC requires lawyers to blow the whistle on their clients if they suspect ethical misbehavior, or at least requires them to make a **noisy withdrawal**, meaning that when a lawyer sees evidence of a client company's committing a material securities law violation and is unable to get the company's board to stop it, the lawyer must quit and inform the SEC that the resignation is for professional considerations. The SEC most likely would investigate this case based upon the lawyer's actions.

Employee whistle-blowing has gained the attention of government bodies around the world, as shown in Exhibit 5.B. The effectiveness of these legal protection regulations varies greatly from country to country.

[illegible]

- Divided loyalties—For example, in some Asian countries, members of the company are treated as family members and it is considered wrong to report on family members.
- History—The country may have a tragic history of reporting on others, such as the Gestapo tactics in Germany during World War II. Thus, whistle-blowing may not be considered as a realistic option.
- Logistics—Employees of global companies may be faced with numerous time zones and language differences that could prevent whistle-blowing or make it more difficult.
- Fear of retribution—Despite government laws to protect whistle-blowers, many employees of global businesses fear retaliation and their fears may be warranted. A spokesperson for the Trade Union Advisory Committee noted that the organization had received reports of employees being murdered for exposing corruption.[31]

The importance of being attentive to ethical issues at work and the ability to reason to an ethical resolution of these knotty dilemmas are essential given the increasing ethical scrutiny and consequences for unethical behavior in the workplace. But employees do not work in a vacuum. The organization where they work and the culture that exists within any organization exert significant influence on the individual as an ethical decision maker. Businesses are making significant efforts to improve the ethical work climates in their organizations and providing safeguards to encourage ethical behavior by their employees, as the next chapter discusses.

- Ethics is a conception of right and wrong behavior, defining for us when our actions are moral and when they are immoral. Business ethics is the application of general ethical ideas to business behavior.
- Ethical business behavior is demanded by business stakeholders, enhances business performance, complies with legal requirements, prevents or minimizes harm, and promotes personal morality.
- Ethics problems occur in business for many reasons, including the selfishness of a few, competitive pressures on profits, the clash of personal values and business goals, and cross-cultural contradictions in global business operations.
- Managers' on-the-job values tend to be company-oriented, assigning high priority to company goals. Managers often value being competent and place importance on having a comfortable or exciting life, among other values, although values in America may be changing in the post–2001 terrorist attacks and post–Enron and WorldCom era.
- [illegible]
- Individuals reason at various stages of moral development, with most managers focusing on personal rewards, recognition from others, or compliance with company's rules as guides for their reasoning.
- People in business can analyze ethics dilemmas by using three major types of ethical reasoning: utilitarian reasoning, rights reasoning, and justice reasoning.

Discussion Case: *The Warhead Cable Test Dilemma*

It was Monday morning at Bryson Corporation's cable division assembly plant. Stanton Wong, the quality supervisor, had been worrying all weekend about a directive he had received from his boss before leaving work on Friday. Harry Jackson, the plant manager and a vice president of operations, had told Stanton unambiguously to disregard defects in a batch of laminated cable they had produced for a major customer, a military contractor. Now, Stanton was wondering what if anything he should say or do.

Bryson Corporation was large conglomerate headed by an aggressive CEO who had established a track record of buying and turning around low-performing manufacturing firms. Harry Jackson had been sent to the cable plant shortly after it had been acquired, and he was making headway rescuing what had been a marginal operation. The word in the plant was that corporate was pleased with his progress.

Harry ran the plant like a dictator, with nearly absolute control, and made sure everyone inside and outside the organization knew it. Harry would intimidate his direct reports, yelling at them and insulting them at the least provocation. He harassed many of the young women in the office and was having an affair with one of the sales account managers.

Stanton's two-year anniversary on the job had just passed. He was happy with his progress. He felt respected by the factory workers, by management colleagues, and often even by Harry. His pay was good enough that he and his wife felt confident to buy a house and start a family. He wanted to get a reputation as a loyal employee. He had decided early on that he was not about to challenge Harry. At least, that was Stanton's approach until the warhead cable came along.

The warhead cable was part of a fuse system used in missiles. In the production process, a round cable was formed into a flat, ribbon-like shape by feeding it through a lamination machine and applying specific heat, speed, and pressure. The flattened cable was then cut into specific lengths and shapes and shipped to the customer, a defense contractor.

[illegible]

When a batch of cable was ready for shipment, Stanton was responsible for preparing a detailed report of all test results. The customer's source inspector, Jane Conway, then came to the plant and performed additional sample testing there. On inspection days, Jane tended to arrive around 9:00 a.m. and spend the morning reviewing Stanton's test data. Typically, she would pull samples from each lot and inspect them. She rarely conducted her own elevated heat seal test, however, relying instead on Bryson's test data. Stanton and Jane often had lunch together at a nearby restaurant and then finished up the paperwork in the afternoon.

The prior week, during a very busy time, a large order for the warhead cable came in with a short turnaround period. Stanton tested a sample taken from an early lot and had good results. But his testing on Friday revealed problems. Of 10 samples, two failed. That afternoon, Stanton went to Harry's office with the failed samples to show him the de-lamination. Before Stanton could say a word, Harry called in the production manager and cursed him out. He then turned to Stanton and said, "Let's wait and see if the source inspector catches this problem." Stanton reminded him that typically the source inspector didn't perform this particular test. Harry responded, "Well, most of the samples passed." Stanton replied, "Yes, but some failed. That shows inconsistency in the lot. The protocol requires a test failure be reported for such results."

Harry had already made up his mind. "Don't tell me what I can and cannot do! The decision is mine to make, and what I have decided is that we will see if the source inspector finds the failure!"

All weekend, Stanton worried about Harry's directive. Bryson cables were used to manufacture fuses in missiles. Stanton thought about several people he knew from high school who were now on active duty in a war zone overseas. He thought about possible harm to innocent civilians or even to U.S. service members if a missile misfired. He wondered if anyone in the parent corporation could help, but did not know anyone there to call.

Source: Case written by Jeanne McNett, Assumption College. The event described in this case is real, but the names of the individuals and the company have been disguised. An earlier version of this case was presented at the 2005 annual meeting of the North American Case Research Association. Used by permission. © 2006 Jeanne McNett and the North American Case Research Association.

[1] "Former Executive at WorldCom Gets 5-Month Jail Term," *The Wall Street Journal*, August 8, 2005, *online.wsj.com*; "WorldCom Ex-Controller Myers Gets Year-and-a-Day Jail Term," *The Wall Street Journal*, August 11, 2005, *online.wsj.com*; "Citigroup Forces Resignations of 3 Senior Executives," *The*

New York Times, October 20, 2004, *www.nytimes.com;* and "HealthSouth Executive Sentenced to Eight Years," *The New York Times*, June 16, 2006, *www.nytimes.com.*

FIGURE 5.1

Observations of Unethical Behavior at Work

Source: *2005 National Business Ethics Survey,* Ethics Resource Center, Washington, D.C.

Fifty-two percent of employees observed at least one type of misconduct in the workplace in the past year. Types of misconduct include (in order of frequency observed):

- Abusive or intimidating behavior toward employees
- Lying to employees, customers, vendors, or the public
- A situation that places employee interests over organizational interests
- Violations of safety regulations
- Misreporting of actual time worked
- Discrimination on the basis of race, color, gender, age or similar categories
- Stealing or theft
- Sexual harassment

FIGURE 5.2

Why Should Business Be Ethical?

To meet demands of business stakeholders.
To enhance business performance.
To comply with legal requirements.
To prevent or minimize harm.
To promote personal morality.

[2] Juliet Altham, "Business Ethics versus Corporate Social Responsibility: Competing or Complementary Approaches," *International Business Ethics Review,* Spring 2001, pp. 10–12.

[3] "U.K. Bank Foregoes Business—But Not Profits—Due to Ethical Stance," Institute for Global Ethics, *Ethics Newsline,* May 10, 2004, *www.globalethics.org/newsline*.

[4] Curtis C. Verschoor, "A Study of the Link between a Corporation's Financial Performance and Its Commitment to Ethics," *Journal of Business Ethics* 17 (1998), pp. 1509–16; and Simon Webley and Elise More, *Does Business Ethics Pay? Ethics and Financial Performance,* Institute of Business Ethics, 2003.

[5] For a thorough discussion of the U.S. Corporate Sentencing Guidelines, see Dan R. Dalton, Michael B. Metzger, and John W. Hill, "The 'New' U.S. Sentencing Commission Guidelines: A Wake-Up Call for Corporate America," *Academy of Management Executive* 8 (1994), pp. 7–13; and Dove Izraeli and Mark S. Schwartz, "What Can We Learn from the U.S. Federal Sentencing Guidelines for Organizational Ethics?" *Journal of Business Ethics,* 1998, pp. 1045–55.

[6] "High Court Ruling Casts Doubt on Federal Sentencing Guidelines," *The Wall Street Journal,* January 12, 2005, *online.wsj.com.*

[7] See Howard Rockness and Joanne Rockness, "Legislated Ethics: From Enron to Sarbanes-Oxley, the Impact on Corporate America," *Journal of Business Ethics,* 2005, pp. 31–54.

University of Pittsburgh Medical Center (UPMC) voluntarily accepted this regulatory standard established by Sarbanes-Oxley, despite the fact that, as a private firm, it was not governed by the Act. In a reported push to improve its corporate governance and the transparency of its operations to the public, UPMC's Chairman G. Nicholas Beckwith III said the organization was "on schedule to become one of the first academic medical centers in the country to comply with the most rigorous provisions of Sarbanes-Oxley." UMPC recognized that voluntary compliance might yield unexpected benefits through improved efficiency and set a standard for transparency for nonprofit organizations.

The public trust appeared to be the cornerstone theme for Beckwith and his management of UPMC. "Who owns us? The entire Western Pennsylvania region owns us. That's the people we are accountable to," explained Robert Cindrich, who chaired the UPMC audit committee. "Nick [Beckwith] really defined us as an asset belonging to the region."

The benefits to the UPMC system of Sarbanes-Oxley compliance were several. For example, billing shops at three different health care facilities were standardized and consolidated in one place. Forecasting and accounting information was available faster, and supply chain management improved. Best of all for UPMC, the cost of compliance was much less than anticipated. UPMC budgeted $6 million for Sarbanes-Oxley compliance efforts, but CFO Rob DeMichiei stated that out-of-pocket expenses would likely be less than $1 million. The anticipated savings easily exceeded the cost of compliance, and the endeavor brought peace of mind to the organization's leaders. "I can't tell you how much better we feel about our internal controls," said DeMichiei.

Source: Kris B. Mamula, "UPMC Seeks Nonprofit First: Experts Hail Sarbanes-Oxley Compliance Effort," *Pittsburgh Business Times,* October 28, 2005, *www.bizjournals.com/pittsburgh;* and Christopher Snowbeck, "UPMC Draws Line at Children's in New Effort at Corporate Compliance," *Pittsburgh Post-Gazette,* January 14, 2006, p. A9.

[8] "The Virtues of Compliance over Complaint," *Financial Times,* January 15, 2006, *www.ft.com;* "Here It Comes: The Sarbanes-Oxley Backlash," *The New York Times,* April 17, 2005, *www.nytimes.com;* and "Learning to Love Sarbanes-Oxley," *BusinessWeek,* November 21, 2005, pp. 126–28.

[9] "The Virtues of Compliance over Complaint"; and "UPMC Seeks Nonprofit First: Experts Hail Sarbanes-Oxley Compliance Efforts," *Pittsburgh Business Times,* October 28, 2005, *www.bizjournals.com*.

[10] *2004 Report to the Nation on Occupational Fraud and Abuse,* Association of Certified Fraud Examiners, *www.acfe.com.*

[11] "Workers Value Ethical Managers," Institute for Global Ethics, *Ethics Newsline,* August 7, 2006, *www.globalethics.org,* and *2005 National Business Ethics Survey: How Employees View Ethics in Their Organizations, 1994–2005* (Washington, DC: Ethics Resource Center, 2005).

FIGURE 5.3

Why Ethical Problems Occur in Business

Reason	Nature of Ethical Problem	Typical Approach	Attitude
Personal gain and selfish interest	Selfish interest versus others' interests	Egotistical mentality	"I want it!"
Competitive pressures on profits	Firm's interest versus others' interests	Bottom-line mentality	"We have to beat the others at all costs!"
Conflicts of interest	Multiple obligations or loyalties	Favoritism mentality	"Help yourself and those closest to you!"
Cross-cultural contradictions	Company's interests versus diverse cultural traditions and values	Ethnocentric mentality	"Foreigners have a funny notion of what's right and wrong."

[12] For a compact discussion of ethical egoism, see Tom L. Beauchamp and Norman E. Bowie, *Ethical Theory and Business,* 7th ed. (Upper Saddle River, NJ: Prentice Hall, 2004), pp. 12–16.

[13] "Kozlowski, Swartz Sentenced to Up to 25 Years in Prison," *The Wall Street Journal,* September 19, 2005, *online.wsj.com.*

[14] "Samsung to Pay Fine for Price Fixing," *The Wall Street Journal,* October 14, 2005, *online.wsj.com*. Pressuring subordinates may also result in unethical behavior as reported in Barrie E. Litzky, Kimberly A. Eddleston, and Deborah L. Kidder, "The Good, the Bad, and the Misguided: How Managers Inadvertently Encourage Deviant Behavior," *The Academy of Management Perspective,* February 2006, pp. 91–103.

[15] "Ex-Wal-Mart Vice Chairman Pleads Guilty in Fraud Case," *The Wall Street Journal,* January 31, 2006, *online.wsj.com;* and "Wal-Mart Legend to Serve Sentence Confined to Home," *The Wall Street Journal,* August 12, 2006, *online.wsj.com.*

[16] Based on John R. Boatright, *Ethics and the Conduct of Business,* 4th ed. (Upper Saddle River, NJ: Prentice Hall, 2003), p. 140.

[17] "Bayer Pesticides Cause Poisoning in Cambodia," CBGnetwork, September 25, 2001, *www.pmac.net/bayer_cambodia.html*.

[18] "Few Trust Corporate Managers, Survey Finds," *The Wall Street Journal,* November 25, 2003, p. A16; B. Stevens, "The Ethics of the U.S. Business Executive: A Study of Perceptions," *Journal of Business Ethics,* 2004, pp. 163–71; and "Restaurants Highest-Rated Industry; Oil and Gas Lowest," Institute for Global Ethics, *Ethics Newsline,* August 22, 2005, *www.globalethics.org.*

[19] "U.K. Workers Give High Marks for Employees' Ethics: Survey," Institute for Global Ethics, *Ethics Newsline,* September 12, 2005, *www.globalethics.org*.

[20] See James Weber, "Managerial Value Orientations: A Typology and Assessment," *International Journal of Value-Based Management*, 1990, pp. 37–54; and Jeffrey S. Harrison and James O. Fiet, "New

CEOs Pursue Their Own Self-Interests by Sacrificing Stakeholder Value," *Journal of Business Ethics* 19 (1999), pp. 301–8.

[21] "[illegible] "Bleeding Hearts at B-School?" *BusinessWeek,* April 7, 1997, p. 8; and "What New Grads Want from Their Bosses and Jobs," *Pittsburgh Post-Gazette,* June 12, 2006, pp. A8–A9.

[22] For discussions of virtue ethics see Manuel G. Velasquez, *Business Ethics: Concepts and Cases,* 6th ed. (Upper Saddle River, NJ: Prentice Hall, 2006), pp. 108–14; Rogene A. Buchholz and Sandra B. Rosenthal, *Business Ethics: The Pragmatic Path beyond Principles to Process* (Upper Saddle River, NJ: Prentice Hall, 1998), pp. 38–42; and Robert C. Solomon, *A Better Way to Think about Business* (New York: Oxford University Press, 1999).

[23] "When Religion Is Part of the Business Plan," *American Banker,* January 25, 2005, p. 1.

[24] "More Chaplains Take Ministering into Workplace," *The Wall Street Journal,* November 27, 2001, pp. B1, B10; and "Religion in the Workplace: The Growing Presence of Spirituality in Corporate America," *BusinessWeek,* November 1, 1999, pp. 151–58.

[25] See Ian Mitroff and Elizabeth A. Denton, *A Spiritual Audit of Corporate America* (San Francisco: Jossey-Bass, 1999).

FIGURE 5.4

Stages of Moral Development and Ethical Reasoning

Source: Adapted from Lawrence Kohlberg, *The Philosophy of Moral Development* (New York: Harper & Row, 1981).

	Development Stage and Basis of Ethics Reasoning	**Age Group**	**Major Ethics Referent**
Mature adulthood universal	**Stage 6** Universal principles: human rights	Principle-centered reasoning	justice, fairness,
Mature adulthood specific social	**Stage 5** Moral beliefs above custom: human rights, social principles	Principle-centered reasoning contract, broad constitutional	and beyond
Adulthood traditions, laws	**Stage 4** Society at large: reasoning	Society- and law-centered	customs,
Early adulthood, co-workers, family	**Stage 3** Social groups: friends,	Group-centered reasoning	adolescence school,
Adolescence, youth needs,	**Stage 2** Reward seeking: reciprocity	Ego-centered reasoning	self-interest, own
(i) Childhood obedience to	**Stage 1** Punishment avoidance: power	Ego-centered reasoning	avoid harm,

[26] For details and research findings, see Lawrence Kohlberg, *The Philosophy of Moral Development* (San Francisco: Harper & Row, 1981); and Anne Colby and Lawrence Kohlberg, *The Measurement of Moral Judgment, Volume I: Theoretical Foundations and Research Validations* (Cambridge, MA: Cambridge University Press, 1987).

[27] James Weber and Janet Gillespie, "Differences in Ethical Beliefs, Intentions, and Behaviors," *Business & Society,* 1998, pp. 447–67; and James Weber and David Wasieleski, "Investigating Influences on Managers' Moral Reasoning," *Business & Society,* 2001, pp. 79–111.

FIGURE 5.5

Three Methods of Ethical Reasoning

	Critical Determining Limitations		**An Action Is Method**	**Factor**	**Ethical When . . .**
Utilitarian	Comparing	Net benefits	Difficult to measure	benefits and exceed net costs	
Rights	Respecting	Basic human	Difficult to balance	entitlements rights are	
Justice are fairly	Distributing fair benefits and costs;		Benefits and on fair shares	Difficult to measure distributed	shares costs lack of agreement

[28] For a discussion of ethical rights, see John R. Boatright, *Ethics and the Conduct of Business,* 5th ed. (Upper Saddle River, NJ: Prentice Hall, 2007), pp. 37–40; and Manuel G. Velasquez, *Business Ethics: Concepts and Cases,* 6th ed. (Upper Saddle River, NJ: Prentice Hall, 2006), pp. 71–84.

FIGURE 5.6

An Analytical Approach to Ethical Problems

[29] "Year of the Whistle-Blower," *BusinessWeek,* December 16, 2002, pp. 107–10.

[30] "Christine Casey: Whistle-Blower," *The Economist,* January 18, 2003, p. 66; and "NASA Survey Finds Employees Still Afraid to Speak Up," Institute for Global Ethics, *Ethics Newsline,* April 19, 2004, *www.globalethics.org*.

Here is a summary of some legislative efforts to protect whistle-blowers in various countries.

- European Union—The EU published a charter for whistle-blower protection, identifying the terms under which commission staff may blow the whistle, imposing a duty upon officials to report suspected wrongdoing, and outlining the channels for reporting malpractice.
- Ghana—A whistle-blower protection act has been proposed to offer rewards and protection to people who volunteer information leading to the prosecution of white-collar criminals.
- Israel—This country adopted whistle-blowing protection legislation that protects corporate and government workers.
- South Africa—The Protected Disclosures Act 26 prohibits employers from subjecting an employee to an occupational detriment (e.g., disciplinary action, suspension, dismissal, demotion, harassment) for raising concerns about unlawful or irregular conduct.
- South Korea—The Anti-Corruption Act established the Korea Independent Commission Against Corruption, whose mission includes the encouragement, protection, and compensation of whistle-blowers.
- United Kingdom—The U.K. Public Interest Disclosure Act protects most workers from retaliation by their employers, including dismissal, disciplinary action, or transfer.

Source: Lori Tansey Martens and Amber Crowell, "Whistle-Blowing: A Global Perspective (Part I)," *Ethikos,* May–June 2002, pp. 6–8.

[31] Lori Tansey Martens and Amber Crowell, "Whistle-Blowing: A Global Perspective (Part I)," *Ethikos,* May–June 2002, pp. 6–8.

Key Terms

business ethics, *90*
conflict of interest, *97*
ethical egoist, *95*
ethical principles, *90*
ethical relativism, *90*
ethics, *90*
human rights, *104*
justice, *105*
noisy withdrawal, *108*
personal spirituality, *100*
Sarbanes-Oxley Act, *93*
stages of moral development, *101*
U.S. Corporate Sentencing Guidelines, *92*
utilitarian reasoning, *103*
virtue ethics, *100*
whistle-blower, *107*

www.ibe.org.uk	Institute for Business Ethics
www.usoge.gov	United States Office of Government Ethics
www.sarbanes-oxley.com	Sarbanes-Oxley Act
www.ussc.gov	United States Sentencing Commission
www.charactercounts.org	Josephson Institute, Character Counts

www.workplacespirituality.info Workplace Spirituality

Internet Resources

Discussion Questions

1. What stage of moral development do you think Stanton Wong is at? What about Harry Jackson? Why do you think so?
2. What do you think Stanton should do now, and why? Use one or more of the methods of ethical reasoning presented in the chapter to support your view.
3. Should Stanton blow the whistle on his company? Why or why not?
4. What steps could the company take to prevent a situation like this from occurring in the future?