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# An introduction to business ethics

## Purpose and learning outcomes

The purpose of this chapter is to provide an introduction to the study of ethics in an organisational context and to provide some useful resources for the study of business ethics.

You will be able to

- ▶ understand the purpose of business ethics;
- ▶ appreciate some of the challenges in studying business ethics.

## Introduction

Our main work in introducing and exploring the discipline of business ethics begins in Chapter 2. The purpose of Chapter 1 is to clarify the purpose of business ethics as a discipline and to include some general notes and resources which set the scene and guide you through the complexity of this subject.

We begin by outlining the various approaches to ethics, in particular the difference between philosophical, normative, practical and descriptive ethics. These terms may be applied in a variety of contexts (e.g. politics, bioethics, everyday behaviour, etc.) and therefore our next task is to introduce the specific business and organisational settings which will be of concern to us. This section is of particular importance as the term ‘business ethics’ can be used in two different ways and should also be seen as different from, say, organisational ethics.

The next section has the provocative title ‘Why read a book on business ethics?!’ This is an important point as many introductory books on business and management are largely descriptive and technique oriented. While this book must start with some ideas, it quickly leads on to techniques of ethical evaluation and description of contexts where dubious practice has been seen. Business ethics must not be

seen as merely a negative subject, telling managers what they should not do with little understanding of the pressures they face. Ethical evaluation can make a positive contribution to organisational life and the well-being of stakeholders. We then move on to a section offering some practical advice, mainly relating to reading texts on ethics and writing.

You may wish to read all the material in this chapter before moving on to Chapter 2. An alternative strategy might be to quickly familiarise yourself with this work and then continually return to it when the need arises.

### What is ethics?

You might expect, at this point, a simple definition of ‘ethics’ or ‘morality’. Unfortunately, any such definition will almost certainly be restricted and misleading and it is safer if we assume a common-sense understanding of what is meant by these terms, and refine this understanding as we work through the book. For simplicity we will use the terms interchangeably and assume that our use of them follows the tradition and arguments of Western philosophy (see in p. 7) rather than being based on a particular ideology or belief system, though phrases such as ‘Protestant work ethic’ show us that beliefs and traditions will inevitably affect ethical language and discussion.

We begin by asking the basic questions, ‘what is ethics?’ and ‘what is business ethics?’. If you look at a textbook on ‘ethics’ as seen as a branch of philosophy you will see a number of differences from a text on ‘business ethics’. The most obvious is that it will presume some knowledge of the general ideas, concepts and language which have been developed in the discipline of philosophy over the last 2500 years. That is assuming, of course, that we are speaking within the tradition of Western philosophy developed in Europe and the USA, which puts great emphasis on analysis of fundamental concepts and logic. Of course there are divisions within this large body of work, for example texts on post-modern philosophy (or on ‘continental’ philosophy) will sound very different from the writings, say, of Russell or Ayer, to pick two influential writers in the 20th century who wrote books for a wider readership than their professional peers. Even if one chooses a book by a philosopher who specialises in ethics you will become very aware

that they are not only trying to communicate with non-philosophers but are writing within a community which uses words and ideas in very precise and particular ways. It can often seem that one is eavesdropping on a very sophisticated conversation!

Even beginners' textbooks on 'philosophical ethics' will inevitably assume some knowledge of (or at least some interest in) general ideas within philosophy. Though such texts may well introduce everyday examples and dilemmas to illustrate typical problems, the focus will be on the nature of ethics as a way of using language, say, rather than practical advice on how to handle a particular situation. Indeed, any business situation introduced will seem very simple, often no more than a caricature of the complexities of a real case, and can therefore be very misleading as a prescription for action. Therefore it is important to remember, if you read such a book, that these examples are often introduced either as motivation for the reader to engage with philosophical ideas or as intentional simplification designed to bring a philosophical issue into sharp focus.

To help you navigate through this sort of potential confusion we will use a simple model to differentiate between five 'types of ethical investigation'. Of course, philosophy being what it is, this model could itself be a subject of endless debate: Is it valid to use the word 'ethics' in these ways? What are the precise boundaries between the different 'types'? When you have used this model (and the others presented in this section) for a while you might like to reflect on these points.

### ***Philosophical ethics***

This is also referred to as 'meta-ethics', the prefix 'meta' showing we are talking about ethics itself as a discipline rather than working within the discipline to solve ethical problems. We are asking such things as 'what is ethics?', 'what is moral language?', 'are words used within this discipline in ways which are different from ordinary conversation?'. These questions are very difficult to answer, if they can be given any final answer at all! For example, one answer to 'what is ethics?' might be that it is a complete fraud; a vacuous use of words left over from discarded religious beliefs and a confusion in attempting to answer what are really just practical questions. A debate on whether this is true would be meta-ethical in nature. You might like to think how you would set about analysing this view rather than just giving an unconsidered

reaction. This is a very difficult task to undertake with honesty and intellectual rigour.

A key question in meta-ethics is related to the authority of moral claims. If we state, for example, that 'stealing is wrong' then we must be able to give the grounds for this assertion. To take some examples:

- ▶ Is it based on a profoundly held belief? Yet beliefs differ and moral prohibitions are not constant over all belief systems. The philosophy of religion addresses issues of comparative religion and some religious traditions have a well-developed vocabulary including such words as 'sin' and 'evil'.
- ▶ Is it based on the accumulation of experience regarding what it takes to make a society work? If so we must ask whose experience counts, and how is it accumulated? The philosophy of science looks at issues of the validity of general statements built up in some way from particular observations.
- ▶ Does a society choose its own standards, for example through the processes of formulating laws? Laws often follow on from a sense of what people accept as right, as any government attempting to impose an unpopular law will soon discover. So how does a society arrive at, and agree, standards of behaviour?
- ▶ Is it simply something which is intuitively obvious to us? Then how do criminals view this? Do they lack this intuition, or do they think that stealing is wrong, but so what?
- ▶ Is it always true or is it conditional on other factors? In particular in an organisational context are some forms of stealing just so trivial that they escape this prohibition (e.g. using a biro or some notepaper from work at home) or are some forms of stealing (e.g. wasting office time) not really stealing at all? The idea that one should look at all behaviour in context is very appealing but does this make sense? Philosophical ethics quite naturally tends to search for fundamental principles which apply in all cases in order to provide some bedrock for further analysis.

As you can see, philosophical ethics is fascinating but do not expect it to tell you how to carry out business negotiations in another country (to choose a prosaic but useful problem area). We have spent a little time illustrating some of its attraction above as it cannot be the main concern of this book and will not be dealt with at length below.

### ***Normative ethics***

Normative ethics is also of considerable interest to philosophers in establishing and exploring the ethical theories that can be built on the foundations of meta-ethics. Of course, the subject did not develop historically in this way; theories were developed in what seemed to be a common-sense fashion at the time and became part of prolonged discussion over long periods of time, argued about from different perspectives, with meta-ethics then being based on the revealed grounds for disagreement and concern. Thus normative ethics covers a variety of theories which at one time or another were considered by key writers as the only sensible approach to ethics. The main theories which have survived overlap in some ways and are strongly differentiated in others. Together they provide a substantial resource and are explored systematically in Chapters 5–9 under such headings as ‘virtue ethics’, ‘utilitarianism’, ‘Kantian ethics’, ‘theories of rights’ and so forth.

In very general terms, normative ethical theories attempt to prescribe the best way to live, including how to resolve the dilemmas which may arise when making difficult decisions. They try to show what general rules and guidelines we should follow, how we should distinguish between right and wrong and what virtues we should develop. What they tend not to do is describe how people in practice act, how they develop moral codes or how this work relates to other disciplined approaches to understanding human affairs. Historically the social sciences have paid considerable attention to issues of moral behaviour. The early economist Adam Smith wrote a book on morality. Concerns relating to the ethics of money are strongly and often distinctively reflected in economic theory. Sociology, anthropology and similar disciplines have both described the behaviour of individuals using terms based both on their own discipline and on ethics, and have also described social institutions, such as religions.

### ***Practical ethics***

Whilst being closer to everyday situations, the theories of normative ethics are still expressed in ways which are not specific to context and may require considerable interpretation and development before they capture the particularities of such contexts. In addition, such areas as biotechnology throw up new challenges in the use of standard theories. Therefore, one of the major developments in ethics as a totality over

the past few years has been the development of context-specific areas of theory, such as medical ethics and business ethics, along with the emerging role of the 'ethicist' as a professional able to contribute towards the resolution of difficult dilemmas.

Obviously, in this book we are focussing on business and organisational ethics. We are looking at questions of behaviour in the many and varied situations of organisational life. General questions we might raise in an ethical debate (e.g. is it ever right to tell a lie?) are still applicable as in other contexts but may now also have original twists, for example how do you behave in business situations where lying seems to be the norm and telling the truth is not seen as effective competitive behaviour?

Business ethics also overlaps with other areas of practical ethics, such as environmental ethics (e.g. the rights of financial stakeholders may be set against a proactive approach to 'green' issues), medical ethics (e.g. is a pharmaceutical company under any obligations to sell products, developed at great cost, at low prices in developing countries where need is great and financial resources limited?), the ethics of journalism and the ethics of politics or even the latter two together (noting the issues which arise when the communications industry's interests clash with those of governments around the world).

### ***Descriptive ethics***

A quite different approach often found in texts on business ethics but frequently completely lacking in philosophical texts is descriptive ethics. This approach looks at how individuals, groups and organisations approach ethical evaluation and decision-making in practice. It is an empirical methodology, often carried out as part of social science projects and using research methods commonly seen in sociology and psychology. It treats 'ethics' in just the same way as any other social construct and investigates its properties. Its outputs are descriptions and explanations, sometimes borrowing a technical language from the social sciences but also sometimes couched in everyday business language.

Thus while normative ethics begins with what are thought to be generally applicable principles and moves towards prescriptions for ethical behaviour, descriptive ethics begins with observations of how people behave and attempts to provide explanations, integrated with social science and practical views of the world. One problem with descriptive ethics is the language it uses, which may borrow terms from philosophy or everyday language and use them in uncritical ways. It would therefore

appear that normative and descriptive ethics may be complementary in providing insights into ethics in practice. In this book we will approach descriptive ethics in this positive way. Chapter 4 outlines some approaches to descriptive ethics and other examples occur throughout the book, in particular in Chapter 15 (which deals with other cultures) and Chapter 19, where the idea of moral distance is used in a variety of case examples.

### ***Role of ethics in business***

Thus there are several different roles to be played by business ethics, which may be summarised as follows:

- ▶ to describe and categorise (that is, provide a language for) the process of value formation in organisations and in the free market economy;
- ▶ to describe and categorise, as moral or otherwise, how decisions are made in organisations;
- ▶ to provide a critique of the process of value formation in organisations and in the free market economy. Some writers (see Chapter 2) argue that business ethics has become far too 'owned' by the business community to be incisively critical;
- ▶ to prescribe the values which should hold in organisations, presumably in combination with experience and the findings of the social sciences. It should be noted that this presumption is not obvious in some approaches;
- ▶ to prescribe how decisions should be made in line with sound moral principles (and with the above presumption).

It is obvious that the above are linked together in a variety of ways. To describe how decisions are made implicitly describes the underlying values of the decision maker; similarly with prescriptions. A key point made above is that ethics is not the only player in the game, hence the reference to the social sciences. Underlying this are meta-ethics and the various ethical theories seen in the literature. However, the whole point of business ethics is usually seen as the implementation of this body of theory in the specific field of organisations.

There is another intriguing possibility. The world of business and organisation has a number of unusual features, such as:

- ▶ the hierarchical nature of responsibility and authority;
- ▶ uncertainty management and risk taking;

- ▶ the complex chains of cause and effect;
- ▶ the key role of information flow and asymmetry;
- ▶ the size and interconnectivity of the systems under consideration.

Is it possible that consideration of these features of a system will suggest new approaches to ethical theory as a whole, or at least bring into the foreground ideas such as moral luck (an existing concept in normative ethics)?

### **Organisational contexts**

Though we are using the generic title 'business ethics' to cover the material in this book, it is useful to use some more precise nomenclature in order to subdivide the organisational contexts under consideration. In discussing the following terms you should note that the definitions given below are not necessarily consistently used by all writers in this area.

#### ***Organisational ethics***

This very broad title applies to the ethics of working in an organisation, that is the individual actions, duties, roles and responsibilities of people working together within a formal structure which itself has owners, stakeholders and objectives. This title is used independently of the environment within which the organisation operates (e.g. competitive business markets, public service, voluntary sector, etc.) and is therefore used for situations which are independent of that context. For that reason it tends to be associated with a primarily inward-looking perspective.

#### ***Management ethics***

In practice, much of organisational ethics is about the process of management, the relationships between managers and the relationships between managers and other employees. One curiosity of the management profession is that the title 'manager' may be widely used in one organisation to include, say, supervisors and team leaders while in another organisation a very flat structure (i.e. few levels in the 'hierarchy' and many individuals reporting to one team leader) may mean that few people have the title 'manager'. Indeed in some organisations with a strong professional base, the only 'manager' may be an administrator with little if any supervisory responsibilities. It is also possible that some

senior and highly paid employees will have no responsibility for the management of others but have considerable effect on how the organisation works and relates to its environment. For these reasons we will tend to use the phrase 'organisational ethics' unless we wish to draw particular attention to the issues involved in managing people and systems.

### ***Business ethics***

Unfortunately this widely used phrase has two meanings which are related but which can lead to confusion. The first meaning is simply the area of work we have called 'organisational ethics' but with the added stipulation of a competitive market environment, that is we are referring to the ethics of people working within a 'business' in the accepted sense of the word. Where the issues to be discussed are common to competitive and non-competitive contexts, it is more useful to talk about organisational ethics. If we are talking about ethical dilemmas which only arise within a competitive environment, then we can signal this by using the phrase 'business ethics'.

The other use of 'business ethics' is to refer to the business itself, as a distinct entity, acting competitively. Indeed the phrase is used by some writers in discussions of the ethical problems of doing business in general, though, perhaps, 'market ethics' might be more helpful in referring to a competitive market-based economic system. Obviously in reality all the actions of the 'business as an entity' are actions of individual entrepreneurs, managers and employees. Therefore provided we are aware of any possible confusion, it can be very useful to talk about 'business ethics' if the environment is competitive and we wish to balance a consideration of inward- and outward-looking approaches.

In a similar fashion we might also wish to refer to 'public sector ethics', 'voluntary sector ethics', the 'ethics of health care' and so forth if we wish to signal a focus on issues which are specific to these environments. In particular it is worth remembering that much public sector work is carried out in partnership with private sector organisations (e.g. construction projects) and hence even terms such as 'partnership ethics' might be useful, though are not used in this book.

### ***Corporate Social Responsibility***

Corporate Social Responsibility (CSR) is increasingly being used as a term to refer to the discharging of responsibilities by organisations,

acting as corporate entities, to society as a whole (similar to the second sense of 'business ethics' above). An issue of some theoretical interest is whether the concepts and tools of analysis used within philosophical ethics can really be directly applied to an agent which is a legal entity (such as a business) rather than a person. We will take the conservative view that ethics directly relates to people, though we may use words like 'duty' and 'values' in relation to organisations when these have been defined in some way. For example, as people we have fundamental duties (see Chapter 7) and characteristics referred to as virtues (see Chapter 9). Organisations may also have legally defined duties and it may be useful to refer to organisational characteristics such as culture, capabilities and even virtues, provided we bear in mind the context and think carefully about what this might mean in practice. We say more about CSR in the next chapter.

### ***Functional or professional ethics***

Just as we can differentiate by environmental context, it may also be useful to consider the ethical problems which tend to arise within specific functional areas of an organisation. 'Accounting ethics' is important for all organisations as the audit, control and reporting aspects of financial management must be carried out with a high degree of probity and transparency; many examples of organisational malpractice arise when this is not the case and therefore accountants are bound by strict ethical codes of practice. 'Marketing ethics' is another obvious area of concern due to the consumer's perceptions of misleading advertisements and aggressive selling used by some businesses, most recently through the use of the Internet. Whilst this more visibly applies within business-to-consumer contexts, many issues can arise within business-to-business interactions (say, during negotiations or in supply chain management) or in public sector situations where clients have rightly come to expect high standards of information and service. Human Resource Management (HRM) is another key area where a consideration of ethical practice is essential, perhaps to such an extent that it is difficult to differentiate from organisational ethics as a whole, that is the overall management of people within an organisation may be broader than the traditional area of 'personnel and welfare', and strategic HRM may be defined very broadly by its practitioners and advocates.

## Why read a book on business ethics?

### ***What do you, as a reader, expect from a book on business ethics?***

The first point to make relates to the diversity of your needs, managerial experience and educational background. Every reader of any book starts from a different position. If the book intends to teach technical material, then background knowledge and related skills will be the most relevant attributes you will bring to the experience of reading and learning. However, applied ethics is different. The potential contribution to the learning experience coming from your own knowledge and experience is very great. With this in mind, one might see a business ethics text as a dialogue, though a printed book is not always the easiest format to use if this is the case.

I would like to suggest some reasons why you might (or in some cases might not) find this or any other book on business ethics to be useful:

*It gives a set of moral rules to guide conduct when working in an organisation*

This would be a nice, straightforward outcome: the 10 commandments (more like a 100!) to be a moral manager. Now, is this the same as being a 'good' manager in the other sense of the word, that is being effective and successful, or are there another set of commandments for that? Management theory shows us that there is no one unique way to be a successful manager; there is room for creativity, leadership and style, and the need to respond to people and events in original and thoughtful ways. We might also argue that being a moral, though ineffective, manager is pointless except in the exceptional circumstances of, say, a thoroughly corrupt organisation. There might be occasions when one has to stand up against immoral policies, working cultures and individuals but we will take as a starting point that being moral as well as effective is normally possible. This view can be challenged by radical critiques of management and business in general, but that would be a different book.

A further complication is that the theory of ethics does not provide one agreed set of guidelines for action. Ethics is better seen as a process of argument and exploration which has been continuing in various guises and cultures for around 2500 years. This had the advantage that most obvious approaches have been explored in depth; the bar-room philosopher's pearls of wisdom on how business should be run will not be original!

So, in total, ethics does not produce unique recommendations, and prescriptions for moral management must also be seen in the light of effective management. There is much guidance but no hard and fast rules.

*It is an attack on the immorality of the business system as a whole*

As we hinted above, a number of writers have used examples of immoral practices in business as part of an argument that the system as a whole is irretrievably corrupt. Quite simply, this is a different way of approaching the subject and we take a more optimistic stance. This should not, however, be confused with complacency; the argument that unregulated, free-market competition based on an egoist ethics (see Chapter 5) is a valid way of characterising the business world provides a worthwhile challenge for ethical evaluation.

*It is an introduction to the language and ideas of ethics as applied to business*

This is far closer to the view adopted here, but a number of texts on applied ethics would do the same job. Hence...

*It is an introduction to the language and ideas of ethics as applied to business, but emphasising the particular features of the business world which make business ethics different from other branches of applied ethics*

A long description but closer to our intention, though see below for some additional features.

*It is an introduction to the skills of ethical analysis of business situations*

Yes, though expect to spend your entire career in honing those skills!

*It is a summary of the main ideas in business ethics which may help you complete assignments and pass exams*

Well yes, though I have made no effort to write the text as an exam guide. A health warning might be appropriate here. I have chosen material from a very large literature and illustrated this with cases and my own experiences of management. The intention is to show how ethics can be applied to business and management rather than reproduce a set syllabus. Other teachers will use some different materials and may have different expectations, as summarised in the learning outcomes of particular modules. To repeat a very old piece of advice, answer the question as set rather than reproduce the bit of your notes which is nearest!

*It provides guidance in terms of life skills and moral development*

One of the reasons why business ethics is valuable to us at a personal level is that we all at some times face considerable pressure to act in

ways that might be unethical, we may be unsure how to act, or we may need to summon up the determination to oppose others who we are sure are acting unethically. Reading widely, discussing our difficulties with others and taking advice on how to proceed may all be valuable in this context. Beyond that, it is up to you!

### **Practical advice for students of business ethics**

In this section we introduce a number of ideas linked with some practical advice relating to studying business ethics either as part of a programme in business or some other discipline or as a topic in itself. Of particular importance is the development of good technique in crafting and communicating a compelling argument.

The above is particularly true of experienced managers who, after overcoming a natural resistance to the feeling that some fundamental ways in which they behave and relate to their world of work are being questioned, can become very forceful in debate and introduce new and exciting challenges to received ideas in ethics. Managers who have to deal with the politics and uncertainties of organisational life on a day-to-day basis may well find the prescriptions of ethics apparently simplistic and even unfair. If you are dealing with disciplinary issues of, say, email or Internet misuse, harassment and petty expense claims fiddling within an organisational culture where aggressive selling is seen as the route to survival, and where a questioning of this assumption is viewed as disloyal, then Aristotle and Kant may seem remote. However, employees in such situations need all the support they can get, whether from a sound grasp of the methods of ethical argument or the bolstering of their self-belief that moral behaviour is the best approach in the long term. In my experience, managers welcome this debate, but may not be as effective as we all would wish in formally analysing situations and constructing arguments. Yet this is exactly what change agents who wish to combine ethics with effective political action in organisation must be able to do (see Chapter 10).

### ***How to read a business ethics text?***

No one book or writer should ever be taken as definitive in addressing an issue in philosophy or ethics. However much you empathise with a text, it is essential to read around it, including the work of writers from

different disciplines who may be antagonistic to an approach you like. This can be hard work and personally unsettling, but it must be done. In particular challenge introductory texts (such as this one) and collections of readings; even if the topics included in a basic introduction seem inevitable, constructing such texts involved decisions about what is relevant and what is not.

If you wish to refer to original philosophical resources you must be aware of the fact that some philosophical writing is very hard to understand. This is partly because philosophers often write in response to previous work and some modern writings are simply unintelligible without a good knowledge of the background debate. Some philosophers, such as Hegel, are extremely demanding, to say nothing of some ‘continental’ or post-modern writers whose dense style can seem obscure. Also it is important to realise, in order to maintain one’s own self-confidence, that some topics are intrinsically difficult. For example logic, beyond an introductory level, is either extremely subtle (as in philosophical logic) or akin to studying advanced mathematics. In view of the above, particularly if you are not specialising in philosophy, it is important to do a reality check and ask yourself on a regular basis ‘what am I getting out of this work?’ and adapt your approach accordingly.

There is a constant tension in business and management writing between theory and its application in reality, as also reflected in this book. Theories are often best if kept as simple and intelligible as possible while the reality to which they apply is endlessly rich and complex. This tension cannot easily be solved by including large numbers of factors in our theories or ignoring most of the complexity in reality! It does mean that one needs a different mindset when reading and coming to terms with an elegant theory (which clarifies some points but is essentially limited) as opposed to a case study or description of reality (or our perception of a real situation) which attempts to capture a wide range of factors. However, both are important and at some point we have to be able to bring them together.

### ***How to write (or why write?)***

No doubt a student response to this strange question is that writing (or, preferably, typing) is a painful activity that takes place in class or as assignments or in exams. Traditionally many managers made a point of not writing, preferring dictation and the occasional signature. Technology has increased the need for ‘keyboard skills’, reminding us that

for many people 'copy and paste' is at least as important as text generation.

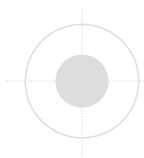
Unfortunately 'cut and paste' may not do justice to our own thoughts and arguments. One of the main reasons for writing is to find out what we know! This was part of a number of good points made at a seminar on academic writing I attended some time ago and immediately accepted by those in the room as an interesting and practical way of looking at this strange and difficult process. It obviously does not refer to copying (even from memory!) but to sorting out the often forgotten or unrecognised jumble in our heads. It requires practice and confidence, and also assumes previous experiences and other inputs as well as a capacity to reflect on them.

This advice can also be extended to the notion of conversation and discussion as a way of finding out what we know, as well as what others know, though this is perhaps more obvious to most people. At first sight it may seem to run counter to ideas of careful planning, outlining and structuring written work but is best seen as complementary to them. The idea is that we type, write, jot and scribble text of various kinds as often as possible in order to explore and structure our thoughts. It is not intended that this becomes the finished article for our report or assignment, but with practice it may be close to it.

Then a second piece of advice is to rewrite until we (singular or group) are entirely satisfied with the finished product, in content as well as presentation. The real advantage of word processing now becomes evident. Perhaps one of the more miserable academic duties is marking a group assignment where we see a group of five students producing five sections, each obviously a first draft written by a different student with no obvious consultation or reading of the final offering. The workplace equivalent is the report similarly cut and pasted, though in this case the signature at the bottom may signify some acceptance of responsibility.

## Summary

In this chapter we have outlined some ideas on the nature of ethics and business ethics. We have also provided some practical discussion to help with the study of business ethics. Chapter 11 is similar in providing support in case analysis and research. Unlike other chapters, this one does not have a set of references and further reading.



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