



On the Up and Up

Business Ethics

Objectives

-  Explain the concept of business ethics.
-  Describe the impact of ethics on business organizations.



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Have you ever seen a television commercial or print ad featuring “before” and “after” pictures



of an individual’s stunning weight loss? These photos are often compelling—the perfect way to promote a diet, supplement, or weight-loss program. However, if you look closely, you will often see, in very fine print at the bottom, a message stating, “Results not typical.” This means that the models in the advertisement often did more than just take a pill or use a certain piece of exercise equipment.

While this type of promotion may be very effective, some people consider it unethical. They believe the business is trying to fool customers into thinking they will achieve the same results as the models in the photos simply by purchasing the company’s product. The company, however, is doing nothing illegal.

Businesses face ethical issues and dilemmas all the time. The right course of action is sometimes unclear. Sometimes, what seems ethical may conflict with a business’s top priority—making money. That’s why understanding business ethics is an important task for owners, managers, and employees alike.

A

Let’s Get Ethical

What does it mean to be ethical? In some situations, the answer may be clear. For instance, you know it’s unethical to cheat on your marketing exam. In other situations, however, the line between ethical action and unethical action can be blurry. What about working together with another student on your marketing homework? Your teacher didn’t say not to, but she didn’t say it was OK, either.



▲ *Is it ethical to work together on homework assignments? When in doubt, ask your teacher!*

Ethics are the basic principles that govern your behavior. Your personal **code of ethics** guides you to make the right decisions, even in tough situations. Because of your **ethical principles**, your ethical beliefs don't change, whether you're at work, school, or home. **Business ethics**, then, are the basic principles that govern a business's actions. A business's code of ethics determines whether or not a certain action is acceptable for that business, especially if the consequences of that action might have a negative impact on employees, customers, or the community. Every business is responsible for creating its own code of ethics; however, most industries also have general ethical codes for all related businesses to follow. Journalists, for example, consider it ethical to protect their information sources. Most hospital emergency rooms will treat any patient, regardless of his or her ability to pay.

- *Business ethics are the basic principles that govern a business's actions.*



Understanding business ethics isn't always the easiest task. Business ethics and personal ethics sometimes don't mesh perfectly, since different people within an organization may have different personal ethics, and many people aren't sure how to behave ethically in the first place. As a matter of fact, business ethics is an immense and complicated field of research and study, with many people dedicating their entire careers to learning and teaching it. Just keep in mind that both personal and business ethics begin with important ethical principles like **respect** (honoring the rights, freedoms, views, and property of others) and **integrity** (acting with honesty in all situations).



Ethics and the law

It's important to understand that business ethics and business law are not the same thing. Think of the two as overlapping circles—where they overlap, there are actions that are both legal and ethical. But there are also legal actions that are *not* ethical, and, in some cases, there may be ethical actions that are not legal.



What are some actions that are legal but may not be ethical? A doctor's office is not required by law to go above and beyond for a patient by trying several different treatments for an illness or recommending a good specialist. However, most doctors would consider it unethical not to care for their patients to the utmost of their abilities. What about a television production crew filming a reality show? If one of its subjects does something dangerous, such as driving drunk, the crew is not legally obligated to do anything about it. But is keeping silent in such an instance the ethical thing to do?

It may be more difficult to think of actions that are illegal but still considered ethical by some people; however, a few examples do exist. These are often actions that individuals and companies approach with an "everybody does it—so it must be OK" attitude. While driving, have you ever exceeded the speed limit, even by one mile per hour? If so, you were breaking the law. But did you feel you were acting unethically? Likewise, many businesses don't think twice about copying software onto multiple computers, even though they have only one license for it. It's a law that often goes unchecked and unenforced. But does that make breaking it an ethically acceptable thing to do?

- *Sharing software may seem harmless, but it is against the law—and penalties include large fines and even jail time.*



Business ethics are easy when the circles overlap. Although we can't rely on government to determine or enforce codes of ethics, many state and federal laws do address a business's ethical obligations. **The Americans with Disabilities Act**, for instance, prohibits businesses from discriminating against job candidates and employees because of certain physical and mental impairments. **The Sarbanes-Oxley Act** was passed in an effort to ensure that businesses' accounting practices would remain on the up and up. Numerous other employment and environmental-protection statutes are in effect as well. Complying with these laws is both the legal and ethical thing to do.

THE GRAY ZONE

Because your workplace doesn't want to be accused of accepting bribes, you aren't allowed to receive any large gifts from clients. However, one of your long-term clients is also one of your closest friends. He mentions that he has a few extra tickets for an upcoming college football game that he won't be able to use, and he asks if you'd like them. He isn't expecting anything in return, and you'd really like to go to the game. But you know that if you report this gift to your boss, you'll be forced to return them. Do you have an obligation to report this gift, even if it's from a friend? Is it harmless to accept the tickets, as long as no one else knows about it? What's the ethical thing to do?

There are a couple of other differences between ethics and law that are worth noting. First, while ethics are often unwritten rules, the law, by definition, must be published. Second, the consequences for breaching your ethics and breaking the law may be different. Depending on the circumstances, this could mean the difference between disappointing customers and spending time in jail.

Why bother?

Why should businesses strive to behave ethically, outside of fulfilling their obligations to the law? The answer can be summed up in one word—**responsibility**. Accepting responsibility for their decisions means that businesses are accountable for their actions. In a free enterprise system, anyone and everyone is free to start a business and pursue its success. However, along with this privilege comes social responsibility. **Social responsibility** has four pillars:



- **Economic responsibility**—A business is responsible for making money and for contributing to the national and local economies.
- **Legal responsibility**—A business is responsible for operating within the confines of federal, state, and local laws.
- **Ethical responsibility**—A business is responsible for conducting itself with integrity, for respecting the rights of others, and for playing fair.
- **Philanthropic responsibility**—A business is responsible for contributing to society in an **altruistic** (charitable) manner.



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◀ *Stakeholders include investors, employees, customers, and community members.*

These are the broad definitions of a business's social responsibilities. But to whom are businesses specifically obligated, besides themselves? Businesses must fulfill obligations to their **stakeholders**. Stakeholders include:

- **Investors**—Businesses are responsible for using investors' money wisely and for providing them with returns on their investments.
- **Employees**—Businesses are responsible for providing employees with jobs and clean, safe working environments that are free of discrimination and harassment.
- **Customers**—Businesses are responsible for meeting customers' needs and wants with quality goods and services.
- **Community members**—Businesses are responsible for paying taxes to support the community's schools, hospitals, etc., and for doing their part to protect and conserve the environment.





▲ *Companies are held accountable to their stakeholders, who generally expect ethical actions.*

A business with good ethics takes these responsibilities and obligations seriously. A majority of the time, fulfilling them is good for the company as well as for stakeholders and society. Responsible businesses build positive public images, which contribute to overall profitability and long-term success. Ethical businesses set examples for the rest of their industries and establish themselves as leaders in their fields. These businesses understand the importance of building **trust** among their investors, employees, customers, and community members. They know that this means being **transparent**, or being truthful when communicating with stakeholders. It's plain to see that a business that invests in practicing good ethics is making an important investment in itself.



While practicing good ethics can be rewarding for a business, there are no guarantees that an ethical action will produce a positive outcome. Sometimes, doing the right thing can have negative consequences. What if a company refuses to pay a bribe to a government official in a foreign market, and in doing so, allows a major contract to go to a competitor? Businesses must practice good ethics because it is the *right* thing to do, not just to reap monetary rewards.

Summary

Business ethics are the basic principles that govern a business's actions. Understanding business ethics isn't always easy, but it's important to remember that all ethics begin with respect for yourself and others. Ethics and laws are not the same thing, although they often overlap. Businesses should practice good ethics because they have social responsibilities and obligations to stakeholders. Often, but not always, practicing good ethics also leads to a business's financial gain.

TOTAL RECALL

1. What are business ethics?
2. Why are business ethics sometimes difficult to understand?
3. How do ethics and law differ?
4. Why should businesses strive to practice good ethics?



Deep Impact

If behaving ethically is the right thing to do, *and* it often helps a company to succeed, why do some businesses behave unethically? Let's take a look at a few of the reasons this occurs.

The action is not illegal. As you know, not all actions that are unethical are also illegal. Some businesses may justify their unethical actions by hiding behind their legality. It's perfectly legal for a company to close up shop in one town and move its facilities to another location (perhaps overseas) where costs such as labor and taxes are much cheaper. As a matter of fact, many would say that this is just good business. But what about the hundreds of loyal employees who will be left jobless? Have they been treated ethically?

The action is acceptable within the industry. In certain industries, a specific business behavior might be acceptable and even commonplace, while in other industries, the same action would be considered unethical. For example, in many resort towns across the United States and the world, interested customers sit through long sales presentations for time-share vacation properties. The sales techniques companies use to persuade these potential customers to buy are usually very high-pressure, often to the point of being rude and demanding. In this industry, these actions are par for the course. But how would this type of behavior go over at a college admissions presentation or a grocery store?

- *Job loss is not always preventable, but companies should find ethical ways to handle the process.*



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The action is acceptable in a foreign culture. What many Americans would consider unethical may be perfectly acceptable in another culture. A major example of this deals with working conditions and wages. In many developing countries, manufacturing standards and pay expectations are much lower than they are in more developed parts of the world. Because of this, some American companies move their operations overseas in an effort to cut costs. These companies are able to pay foreign workers a fraction of the wages they were paying American workers for doing the same work. They may also avoid the costs and efforts of complying with stricter employment and environmental regulations. These actions may be considered ethical within the new country of operation; however, many at home view them differently.

The action benefits the company. Just as practicing good ethics doesn't guarantee positive consequences, practicing poor ethics doesn't necessarily result in negative consequences. For some businesspeople, the end justifies the means, no matter what. In other words, if an action helps the company or contributes to its profitability and success, that action is thereby acceptable. Believe it or not, a lot of research exists to support the opinion that a business's only true ethical obligation is to make money.



▲ *What one country might consider unethical could be acceptable in another culture! For example, manufacturing standards are much lower in some developing countries.*



Let's say a business makes a great deal of money by selling client information to another company. This business never promised its customers it would keep their information private, so it isn't technically lying or breaking a law by selling the information. The action benefits the company, and most customers won't ever discover how their information got out. This business decided that its action was acceptable because it benefited the company.

It's important to note that an ethical working environment starts at the top. When employees see owners and managers behaving unethically, they take license to behave unethically themselves.

The action is committed by unethical employees. Sometimes, an entire business becomes an ethical failure because of the decisions of one or two key employees. Consider the downfall of Texas-based energy company Enron. The entire company went belly-up due to the unethical accounting practices perpetuated by key upper managers. This doesn't mean that everyone who worked at Enron had poor ethics—but unfortunately, those who did created disastrous results for everyone else.



◀ *A few unethical employees might cause an entire company to become an ethical failure.*



Paying the price

What are the potential consequences for a business that practices poor ethics?

Negative public image. In business, image can be everything. Unethical actions can damage a company's reputation, sometimes irreversibly. Arthur Andersen, Enron's accounting firm, was so damaged by its role in the Enron scandal that it, too, went out of business.

Decreased customer loyalty and retention. A business with a negative public image due to poor ethics will most likely lose customers. Retaining loyal customers costs less than recruiting new ones, and long-term customers have great lifetime value to a company. Missing out on these benefits can damage a company's sustainability and success.

Exposure to lawsuits. When a company behaves unethically, it opens itself up to civil lawsuits and criminal prosecution. PepsiCo faced a class action lawsuit for allegedly using misleading phrases (such as "100% Juice" and "All Natural Fruit") on the packaging of its Naked Juice products. The company agreed to settle for \$9 million—a pretty hefty fine for making unethical claims.

- ▶ *Volkswagen recently came under fire for manufacturing cars that deliberately violated environmental protection standards. They face billions of dollars in penalties and possible criminal charges. The cost of unethical decisions can be high!*





◀ *The consequences for unethical behavior can be severe. For example, the president of the Peanut Corporation of America was sentenced to jail time after the company's products sickened many people.*

Potential jail time. Sometimes, unethical business practices can result in jail time for the employees involved. For instance, the Peanut Corporation of America came under fire when a salmonella outbreak traced to its products killed nine people. In 2015, the company's president was sentenced to 28 years in prison. The company's desire to make a profit, even if it meant shipping tainted food, led to severe consequences. You can read more about the case in the article "Executive Who Shipped Tainted Peanuts Gets 28 Years; 9 Died of Salmonella" by Brady Dennis: https://www.washingtonpost.com/national/health-science/a-life-sentence-for-shipping-tainted-peanuts-victims-families-say-yes/2015/09/19/e844a314-5bf1-11e5-8e9e-dce8a2a2a679_story.html.

Increased opportunities for the competition to beat you. Research shows that customers prefer to do business with companies they consider to be ethical. If one company engages in unethical business practices, other companies in the same industry will be in a better position to recruit and retain loyal customers.

Increased internal problems. A business's unethical behavior creates conflict and tension within the company itself. Not only does an unethical environment encourage fraudulent behavior among employees, many studies show that it also decreases performance levels and productivity.



Increased financial risk. Businesses that exhibit unethical behavior expose themselves to increased financial risk in a number of ways:

- Lost productivity—A company that has to take time out to deal with the consequences of its unethical actions loses time and productivity.
- Fines—For example, Johnson & Johnson paid \$2.2 billion in penalties for falsely marketing drugs. The article “Johnson & Johnson to Pay \$2 Billion for False Marketing” explains more about the consequences of the company’s unethical and illegal behavior: <http://money.cnn.com/2013/11/04/news/companies/johnson-and-johnson-settlement/>.
- Employee turnover—An unethical environment is not conducive to employee retention; the company loses time and money training new employees.
- Decreased sales—Customers prefer to buy from companies they perceive as ethical.
- Lowered stock prices—Investors prefer to invest in companies they perceive as ethical.
- Decreased company value—Losses in sales and lowered stock prices decrease a company’s overall value.
- Bankruptcy—It goes without saying that an unethical company losing financial value runs the risk of going bankrupt.

The world of ethics—personal or business—will always be complicated. Business owners and managers, however, should strive to follow ethical principles and keep their companies above board in every way possible. The consequences may not always be predictable, but respect for employees, customers, investors, and society should be a top priority.



Read more about the negative consequences of unethical business behavior in the article “Effects of a Lack of Ethics on a Business Environment” by Stacy Zeiger: <http://smallbusiness.chron.com/effects-lack-ethics-business-environment-23332.html>.





Summary

Even though behaving ethically is the right thing to do and often contributes to a company's success, some businesses still choose to act unethically. Reasons for this may be that the action is not illegal, the action is acceptable within the industry, the action is acceptable in a foreign culture, the action benefits the company, or the action is committed by unethical employees. Potential consequences for practicing poor business ethics include a negative public image, decreased customer loyalty and retention, exposure to lawsuits, potential jail time, increased opportunities for the competition to beat you, increased internal problems, and increased financial risk.

TOTAL RECALL

1. Why do some businesses behave unethically?
2. What are some results of unethical business practices?

Make It Pay!

Choose one business in your town that you believe behaves ethically. What actions does this business take to make you feel this way? What effect does it have on the community? Are the consequences for this business mostly positive or negative?