§ 1: Business Ethics

- Ethics is the study of right and wrong behavior; whether an action is fair, right or just.
- In business, ethical decisions are the *application* of moral and ethical principles to the marketplace and workplace.

Audio:
The study of ethics could take a whole class. As a matter of fact, the Business School has a whole class on the study of business ethics while we have one chapter and that is all we have time for. So, what is the study of ethics? It’s the study of what’s right and wrong and a determination of when one must act rightly and wrongly in a business setting. It’s the application of moral and ethical principles in the workplace and as I am sure many of you have experienced or know very well, there’s quite a variety of different opinions as to what is ethical and what isn’t ethical.
Directors and Officers owe a complex set of ethical duties to their stakeholders (internal and external).
* When these duties conflict, ethical dilemmas are created.

**Audio:**
Business ethics can be looked at in a number of different ways.

**Slide #:** 5
**Slide Title:** Business Ethics

**Business Ethics**
- **The ‘Moral Minimum.’**
  - Normally considered as mere compliance with the law.
- **“Gray Areas” in the Law.**
  - Make it difficult for companies to navigate and forecast.

**Audio:**
One way is, am I following the law? If I follow the law then I must be ethical, right? Well, many would say that’s not good enough. That’s the “moral minimum.” The other side of that is, what is the law? Since often there’s a disagreement between the Court of Appeals and the Supreme Court, even between Justices of the Supreme Court on what the law is, you can tell there are “gray areas” of the law that are undefined, that are hard to follow. So, even following the law itself is a pretty tough standard in some situations.

**Slide #:** 6
**Slide Title:** Business Ethics

**Business Ethics**
- **Short-Run Profit Maximization.**
  - Some argue a businesses [sic] only goal should be to maximize profit.
  - But executives need to distinguish between short-term and long-term maximization.

**Audio:**
Business ethics should not be based on the maximum profit over the shortest period of time. That’s a very short-sighted approach and one that some businesses will use. My brother worked for a business, a software business. The sole goal of the owner and the person that started the business was to build it up so he could sell it. Well, I suppose as a business model that worked for him, but it didn’t necessarily work for all the employees who were fired once the business was acquired by someone else. Short-run profits can provide maximum benefit, but at what cost? And that’s where we get into ethics. The text makes note of United States versus Skilling. Interesting case to follow. They only give a small portion of it here and it’s still in the works. Things are still being decided about that case – whether or not the
government charged him with the right charge, had the ability to prove what they could, and so on.

**Slide #: 7**  
**Slide Title:** Importance of Ethical Leadership

Importance of Ethical Leadership  
- Attitude of Top Management.  
- Behavior of Owners and Managers.  
- **CASE 5.2 Krasner v. HSH Nordbank AG (2010).** *Did the plaintiff prove the incidents and environment of sexual favoritism were related to his gender?*

**Audio:**  
So where do you start with in determining what should be the ethics for a business? Well, it should start at the management level. If the management does not act ethically, they sure can’t expect that the employees will act ethically. If you have the attitude at the top that things must be done right and must be done ethically, then it’ll trickle down most effectively to the rest of the company.

**Slide #: 8**  
**Slide Title:** Creating Ethical Codes of Conduct

Creating Ethical Codes of Conduct  
- Creating an ethical code of conduct is one of the most effective ways to promote ethical behavior in an organization.  
  - Providing Employee Ethics Training.  
  - Sarbanes-Oxley and web-based reporting systems (EthicsPoint).

**Audio:**  
But this still needs to be a program. There needs to be some ethical code, some way to facilitate what exactly is ethical behavior. Different companies have done a variety of things as far as ethical training, online training. Even the Congress stepped in with the Sarbanes-Oxley Act requiring businesses to act in a more ethical way. There have been a number of examples of businesses that have not acted ethically, and the *Skillling* case that I just mentioned is one of them. In wrong was a company that sold out for short-term profits, fraud, and trying to benefit those at the very top at the cost of so many others. Examples of financial institutions that have transgressed ethical issues.

**Slide #: 9**  
**Slide Title:** § 2: Ethical Transgressions by Financial Institutions

§ 2: Ethical Transgressions by Financial Institutions  
- Corporate Stock Buybacks.  
  - Corporate management believes stock is undervalued, so instead of issuing dividends it buys stock in the market, thus boosting share value.  
  - Who benefits? Those with stock options!
AIG and Executive Bonuses.

Audio:
The book makes note of corporate stock buyback arrangements. These are another example of a way that the management is financially encouraged to act in a way that’s contrary to the best interest of the employees and of the business itself. Some of the bonuses for executives in the stock market in AIG and in other situations are just plain outrageous. There are different approaches that one can take to the reasoning of what is ethical and what isn’t.

Slide #: 10
Slide Title: § 3: Approaches to Ethical Reasoning

§ 3: Approaches to Ethical Reasoning
- Duty Based Ethics – derived from religious and philosophical principles.
  - Religious Ethical Standards.
  - Kantian Ethics.
  - The Principle of Rights.

Audio:
The book makes note of several. We have Duty-Based Ethics – that’s a Religious – Kantian, and Principle Rights.

Slide #: 11
Slide Title: Religious Ethical Standards

Religious Ethical Standards
- The rightness or wrongness of an action is usually judged according to its conformity to an absolute rule that commands a particular form of behavior.

Audio:
Religious ethics are based on rightness and wrongness that’s usually judged according to some absolute rule. As we have in the case of the Bible – it would define the rightness and wrongness.

Slide #: 12
Slide Title: Religious Ethical Standards

Religious Ethical Standards
- The motive of the actor is irrelevant in judging the rightness or the wrongness of the action.
- These rules often involve an element of compassion.

Audio:
And how one is judged according to that and what one’s ethics are.

Slide #: 13
Slide Title: Kantian Ethics
Kantian Ethics

- Premised on the belief that general guiding principles for moral behavior can be derived from human nature.

Audio:
Kantian ethics are interesting. It’s the concept that one’s ethics are derived from human nature. It would be your natural understanding of what is right and what is wrong.

Slide #: 14
Slide Title: Kantian Ethics

Kantian Ethics

- The **categorical imperative** is a central postulate of Kantian ethics.
  - The rightness or wrongness of an action is judged by estimating the consequences that would follow if everyone in a society performed the act under consideration.

Audio:
And the rightness or wrongness of an action is judged by estimating the consequences that would follow if everyone in society performed the same act under consideration.

Slide #: 15
Slide Title: Principle of Rights

Principle of Rights

- Belief that every duty gives rise to a corresponding right, deeply embedded in Western culture.
- Ethicality of an action is judged by how the consequences of the action will affect the rights of others.

Audio:
Next we have the Principle of Rights. Every duty gives rise to some corresponding right. This is a principle that has been held in United States and Western culture for a long time. The action is judged by how the consequences of the action will affect the rights of others.

Slide #: 16
Slide Title: Outcome-based Ethics: Utilitarianism

Outcome-based Ethics: Utilitarianism

- An action is ethical based on whether it produces the greatest good for the greatest number of people upon which it has an effect.
- “Tyranny of the Majority” If it affects the majority adversely, it is morally wrong.
And then we turn to the outcome-based ethics – Utilitarianism, now this really sounds good. What you want to consider ethical is what promotes the greatest good for the greatest number of people. Now that sounds good, but there are some problems in its application. I call it the “Tyranny of the Majority.” So you can have the greatest number of people benefitted by oppressing a minority group. Well, that doesn’t make sense. That’s not what the Utilitarianism had intended, but it is morally and ethically wrong.

**Slide # 17**
**Slide Title:** Outcome-based Ethics: Utilitarianism

Outcome-based Ethics: Utilitarianism
- Applying the utilitarian theory requires:
  - Determination of individuals affected;
  - Cost-Benefit analysis, and
  - Choice among alternative actions.

**Audio:**
Applying the Utilitarian Theory, it is a determination of the individuals that are affected, a cost-benefit analysis, and a choice among alternative actions. If you want to read an interesting fiction book, actually a novel by Robert Ludlum, *The Bancroft Strategy*, the whole basis of that book is the greatest amount of good for the greatest number of people and the characters in the book have quite a discussion of what is right and what is wrong and what should be considered – a fascinating discussion of Utilitarianism.

**Slide # 18**
**Slide Title:** Corporate Social Responsibility

Corporate Social Responsibility
- CSR is the idea that those who manage corporations should be accountable to society for their actions.
  - Stakeholder Approach: corporations have a duty not only to shareholders but other groups (stakeholders) affected by corporate actions.

**Audio:**
Next we move on to a concept that was promoted by Andrew Carnegie – corporate social responsibility, the idea that a corporation should be part of society. It should be corporate citizen, and as a citizen it should be responsible to society for their actions. So, corporations not only have a duty to their shareholders, but also to the society in which they operate.

**Slide # 19**
**Slide Title:** Corporate Social Responsibility

Corporate Social Responsibility
- Corporate Citizenship: promote goals that society considers worthwhile and take positive steps towards solving problems.
CASE 5.3 Fog Cutter Capital Group, Inc. v. Securities Exchange Commission (2007). The board focused on the bottom line, not the actions of its founder, to its detriment.

Audio:
Corporate social responsibility is contrasted by managerial capitalism promoted by Milton Friedman. Managerial capitalism focuses on the fact that a business is here to make money. That’s what they’re good at. They’re not good at social engineering. They’re not good at promoting and making society better. Let the experts do that and let the business do what the business is good at.

Slide #: 20
Slide Title: Corporate Social Responsibility

Corporate Social Responsibility

- CSR is a Way of Doing Business.
  - Poll found that 70% of executives polled agreed that corporate citizenship should be a priority.
  - But not all socially responsible activities benefit a company.
- Employee Recruiting and Retention.

Audio:
And that way, the shareholders are happy. That way the business is profitable.

Slide #: 21
Slide Title: § 4: Making Ethical Business Decisions

§ 4: Making Ethical Business Decisions

- George S. May company has provided six guidelines:
  - The law.
  - Rules and procedures.
  - Values.
  - Conscience.
  - Promises.
  - Heroes (role models).

Audio:
Making ethical decisions can be difficult to evaluate. The text sets out George S. May company providing six guidelines in determining what is or is not the best ethical decision. I’m sure many others could write six other guidelines that are similar and could be used in the same way.

Slide #: 22
Slide Title: § 5: Practical Solutions to Corporate Ethics Questions

§ 5: Practical Solutions to Corporate Ethics Questions
• Corporate-Ethics.us has devised a procedure:
  o Inquiry. Discussion.
  o Decision.
  o Justification.
  o Evaluation.

Audio:
Some of the practical solutions to corporate ethical questions. The text makes notes of the Corporate-Ethics.us that has devised a procedure for determining one’s ethics in a particular situation, something that some businesses may promote.

Slide #: 23
Slide Title: § 6: Business Ethics on a Global Level

§ 6: Business Ethics on a Global Level
• American companies must be trained in cross-cultural business practices.
• Monitoring the Employment Practices of Foreign Suppliers.
  o Corporate Watch groups can hold corporations accountable.

Audio:
On the global level, ethics becomes a little more confused because what is the standard in some countries may be almost criminal or even fraudulent in other countries. Consequently, you have some potential difficulties when one country legislates laws for businesses that are doing business in other countries that laws are entirely different.

Slide #: 24
Slide Title: Business Ethics on a Global Level

Business Ethics on a Global Level
• Foreign Corrupt Practices Act.
  o Prohibition Against Bribery of Foreign Officials. But FCPS does not permit “grease” payments to minor officials.
  o Nor does FCPA prohibit payments to foreign officials which are lawful in that country. 

Audio:
In the United States, the Foreign Corrupt Practices Act was passed to try and prevent...

Slide #: 25
Slide Title: Business Ethics on a Global Level

Business Ethics on a Global Level
• Foreign Corrupt Practices Act (cont’d):
  o Nor does FCPA prohibit payments to private companies, unless the US firm knows the payments will go to an official.
...bribery. Of course, you have to define bribery and sometimes that’s a little bit difficult, and to promote what...

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<td>• Foreign Corrupt Practices Act (cont’d):</td>
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<td>o Bribery by Foreign Companies.</td>
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<td>o Accounting Requirements.</td>
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<td>o Penalties for Violations: companies up to $2 million in fines, individuals up to $100,000 and up to 5 years in prison.</td>
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Audio:
...United States feels is the proper way to do business in another country. So we touched the tip of the iceberg regarding ethics and that’s as far as we go.