# ✈ Departures

| Time | To | Gate | Remark |
|---|---|---|---|
| 15:00 | WUHAN | A29 | CANCELLED |
| 15:02 | ROME | A31 | CANCELLED |
| 15:08 | INCHEON | A30 | CANCELLED |
| 15:09 | TOKYO | A27 | CANCELLED |
| 15:12 | SINGAPORE | A28 | CANCELLED |
| 15:14 | HONGKONG | A29 | CANCELLED |
| 15:30 | TEHRAN | A30 | CANCELLED |
| 15:31 | NEWYORK | A31 | CANCELLED |

Should airlines be required to refund your money when they cancel flights? Or is it acceptable to simply offer a credit for a future flight? Who should decide?

piyamas dulmunsumphun/Alamy Stock Photo

# 1 UNDERSTANDING BUSINESS ETHICS

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## LEARNING OBJECTIVES

After reading this chapter you will be able to

**1.1**   Describe why ethics are important to business

**1.2**   Explain key elements of the future of work and business ethics

**1.3**   Summarize how ethics can affect your job, career, and role in society

**1.4**   Articulate common ethical decision-making perspectives

**1.5**   Articulate how to use 3-Dimensional Problem Solving for Ethics to improve your ethical performance

</div>

### What's Your Position?

## CASH OR CREDIT?

The airline industry has long grappled with passengers about refunds for flights not taken due to reasons beyond their personal control. Like other products and services, some passengers argue that if you don't get what you expected and paid for, then you should get your money back—or at least have the choice of a refund or credit. This view seems reasonable, at least on the surface.

However, airlines argue they cannot afford to provide refunds for all cancelled flights, regardless of the cause—weather, system breakdowns, national aviation system (e.g., air traffic control) delays, or other issues. Hundreds or even thousands of flights can be cancelled in a single day, and over the course of an entire year, the numbers are truly enormous. If all of these flights were never rescheduled, they would have planes, pilots, attendants, and countless other support staff they still need to pay, and as a result, they simply cannot, in their current business model, return many millions of dollars multiple times per year, especially without knowing in advance and being able to plan.

As an example, in late 2022, Southwest had an infamous IT breakdown due to outdated technology that caused 17,000 cancellations, approximately 15% of its flights for December, at a cost of nearly $1 billion.[1]

This industry-wide reality was highlighted by COVID-19, when by early April of 2020, travel had declined 95%—from over 2 million passengers per day to less than 100,000—costing airlines an estimated $1.6 billion per day.[2] One of the most challenging aspects of this is how to handle customer cancellations—should airlines refund passenger's money or give them credits for future flights? By late May 2020, airlines had overwhelmingly chosen credits and issued $10 billion worth.[3]

Of course, passengers have little sympathy for airlines that charge them evermore for tickets and make billions in revenues, especially when delays and cancellations are caused by staffing or technology issues. Moreover, the reality for many is that even a delay can cause one to miss an event (e.g., a wedding or a business meeting) for which the flight was booked. This means that a rebooking on the next available flight or a credit for future travel may not have any value.

Not surprisingly, the Department of Transportation (DOT) has intervened at various times with different measures, such as passenger rights regarding tarmac delays, baggage

issues, cancelations, and other issues.[4] But like most regulations, they do not cover all possible issues or individual circumstances. Keep in mind, however, that in most instances, airlines are not required to compensate passengers for delays or cancellation, although legislation has been proposed mandating that airlines do.[5]

## Discussion and Application

1. As a customer, which do you think is the right thing to do—refund or credit for a cancelled flight? Justify your position.
2. What about refunds for delayed flights? If you think refunds for delays are appropriate, then be sure to specify the details. Whether you're for or against, be sure to justify.
3. Assume you are an airline executive, which do you think is the right thing to do? Justify your choice.
4. Again, assume you are an airline CEO, argue the opposite choice to your response to #3.
5. Now, assume that Congress passes a law requiring refunds in some fashion; how does your answer to #3 change?

Are you ethical? Of course, your answer is yes, and you can bet that the numerous executives, coaches, university administrators, politicians, celebrities, and the countless others caught up in ethics scandals would answer this question the same way. Yet, you know from both the news and your personal experience that unethical conduct surrounds us. You also know that sometimes *you* do the wrong thing. But what is more common are the situations you face in which right and wrong are less than clear—you are conflicted. Such difficult scenarios occur in all arenas of your life—school, work, and socially. The overarching goal of this book is to help you develop your ethical compass, including the knowledge and skills necessary to navigate the countless ethical challenges in your job and career. Conducting yourself ethically is foundational to your long-term success and the value of your contributions to your employers, communities, and larger global society.

This is accomplished using a practical approach based on the belief that management, of which business ethics is a part, is an applied discipline—it is something you do. This means it is about informed action, and this belief is reflected in the major learning objectives for you. This book was written to *help you* with the following:

- Understand ethical challenges you will confront in your individual jobs and larger career
- Determine the potential causes and solutions, along with the associated consequences both intended and unintended
- Guide your own ethical business conduct
- Foster and react to (i.e., manage) the ethical conduct of individuals and organizations
- Become a more ethically centered, fulfilled, and productive member of global society

One way to achieve these objectives is to structure the book in way that helps you organize and apply your knowledge as you learn it. Your journey begins with an overview of business ethics and its importance to business in a general sense but also for you and your career. The book

was written with an emphasis on you, as indicated in the five objectives listed above. This over-view introduces some key concepts and creates a common language. The remainder of the book is organized by levels—individual, organizational, and global. As explained later in this chapter, structuring the book and your learning in this way will assist you in organizing your own think-ing and understanding the relationships between factors that influence ethical conduct.

Let's begin.

## IMPORTANCE OF ETHICS TO BUSINESS

> **LO 1.1**          Describe why ethics are important to business.

Why should you or anyone else bother studying business ethics? The most fundamental answer to this question is because the conduct of businesses can and does dramatically affect employees, depart-ments, entire organizations, and even industries, countries, and the planet. We will explore various effects throughout this book, but let's start with the difference between legal and ethical conduct.

### Legal Does Not Mean Ethical!

The first and last thing to remember about business ethics is that because something is legal does not mean it is ethical! To the contrary, many experts argue that an epidemic of unethical conduct has afflicted business across the globe for decades. The news media reports business scandals so regularly that unethical conduct seems commonplace (see Table 1.1 for examples). All of the cases in Table 1.1 share a number of characteristics: Executives (and frequently others) broke the law, executives went to jail, and the companies often failed, causing employees to lose their jobs and retirement savings and investors' money. Put simply, unethical conduct can and often does have enormous and far-reaching negative consequences.

| TABLE 1.1   ■   Examples of Well-Known Business Ethics Scandals | | | | |
|---|---|---|---|---|
| Scandal and Year | Industry | Unethical Conduct | Key Players | Consequences |
| Drexel-Burnham Lambert (1990) | Finance | Insider trading | Michael Milken (junk bond king) | Jail time and $500 million fine for Milken; the firm failed |
| Perdue Pharma, ongoing since mid-1990s | Pharma | False and misleading marketing and dozens of others | Sackler family | multi-billion-dollar settlement, bankruptcy, and restructuring |
| Enron (2001) | Energy | Financial fraud (cooking the books) | Kenneth Lay, Jeff Skilling | Legal penalties for Lay, Skilling, and others; the firm failed |
| Arthur Anderson (2002) | Accounting | Fraud | | Firm failed; consulting arm spun off as Andersen Consulting |

| Scandal and Year | Industry | Unethical Conduct | Key Players | Consequences |
|---|---|---|---|---|
| Madoff and Associates (2008) | Finance | Fraud; Ponzi scheme | Bernie Madoff | Jail time, firm failed |
| Penn State (2012) | Higher education | Sex abuse | Jerry Sandusky Penn State | Jail time, settlement, firing of university president and head of football coach |
| Volkswagen Diesel Emissions (beginning in 2015) | Auto | Deceptive business practices/fraud, stock price manipulation | Martin Winterkorn, CEO | Fines, CEO resignation, damage to brand reputation |
| Fox News (beginning in 2016) | News | Sexual harassment and discrimination, retaliation | Roger Ailes Bill O'Reilly Jamie Horowitz | Settlement payments, ouster of co-president Bill Shine and very senior managers, resignations and firings, damaged image/brand, hired and elevated women into executive positions |
| Wells Fargo, 2016 | Banking | Falsifying banking records, harm to customer credit ratings, fraud, lied to investors | | Firing and disciplining of employees, billion-dollar settlement, damaged image/brand |
| USA Gymnastics Sex (2018) | Higher education (sports and medicine) | Sex abuse | Dr. Larry Nassar, Michigan State University, Coach Kathie Klages | Jail time, fines, organizational bankruptcy, university officials resign or fired, loss of corporate sponsorship |
| College Admissions (2019) | Higher education | Bribery and fraudulent admissions materials | William Singer (mastermind), 33 parents, athletics coaches, admissions counselors, college administrators | Jail time, fines, job loss, suspensions |
| Sam FTX Trading (2023) | Cryptocurrency exchange | Illegal use of investor money | Sam Bankman-Fried | Failure of firm; criminal fraud charges for Bankman-Fried |

Nevertheless, we as a society generally assume that if an action is illegal it is unethical, and individuals and organizations should pay the consequences. The lesson for you—don't break the law—is simple enough.

However, unethical conduct that qualifies as illegal is the exception. Only a puny percentage of all unethical business conduct is actually illegal, and an even smaller percentage results in formal legal complaints. The vast majority of unethical conduct is not illegal. One of the most devastating examples is the great financial crisis beginning in 2008 that caused unemployment to rise above 9%, housing prices to fall nearly 32%, and the U.S. economy to lose nearly $1.4 trillion—with a T.[6]

Underlying this ethical calamity was unchecked risk taking and greed by leaders of financial institutions and their activities in the mortgage market. Beyond ravaging the world economy and causing unemployment and financial ruin for millions of homeowners in the United States, hundreds of millions of people across the globe were also affected due to the true global nature of our financial system and economy.

**(a)**

**(b)**
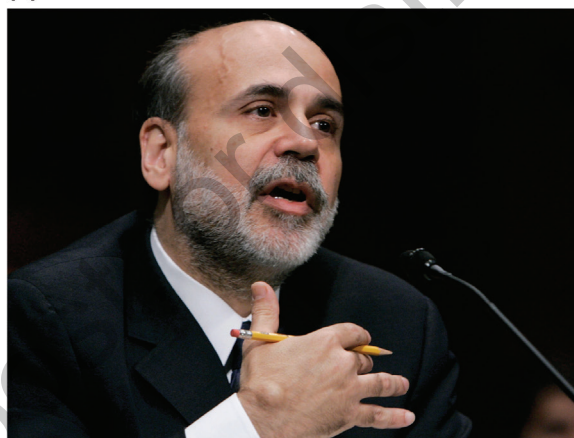


The Great Recession was financially devastating for people around the globe. But in the United States, virtually none of the executives of the firms at the center of the crisis were charged or convicted of illegal activity. The highly unethical but legal conduct of countless individuals was reinforced by the two most powerful regulators at the time—Eric Holder (attorney general) and Ben Bernanke (Federal Reserve chair).

Brendan Smialowski/Freelance Photographer via Getty Images

Mark Wilson/Staff Photographer via Getty Images

Despite the enormity of the consequences, few to no high-level executives of American financial institutions were charged and convicted of breaking the law.[7] Eric Holder, the attorney general of the United States at the time, described the situation by saying that the conduct of many, many executives was unethical and irresponsible but not necessarily criminal.[8] This view was reinforced by Ben Bernanke, the chairman of the Federal Reserve during the same period: "Corporate executives should have gone to jail . . . everything that went wrong or was illegal was done by some individual, not by an abstract firm."[9]

This begs the question: If unethical business conduct that is also illegal is the exception, then who decides what is right and wrong if not the courts? One answer is stakeholders.

## Stakeholders

**Stakeholders** are any entity (e.g., individual, group, or organization) that can affect or is affected by your personal conduct or that of your organization.[10] Table 1.2 shows a number of common stakeholder groups, along with their interests and means for influencing the ethical conduct, policies, and practices of organizations.

| TABLE 1.2 ■ Common Stakeholders, Their Interests, and Means of Influence | | |
|---|---|---|
| **Stakeholder** | **Stakeholder's Interest** | **Means of Influence** |
| Shareholders | Financial returns | Money invested supports business activities |
| Employees | Income; development opportunities; personal reputation | Loyalty to the employer; enhance or erode reputation of the employer in eyes of others |
| Customers | Reliable products and competent service; safety | Loyalty (business over time); promote or complain about the organization to other potential customers (e.g., "word of mouth") |
| Suppliers | Integrity; prompt payment; continuing business | Responsiveness; flexibility; repeat business |
| Creditors | Financial returns | Terms for lending; flexibility |
| Regulators (e.g., financial and environmental) | Compliance with rules and regulations | Penalties (financial, jail time, licensing) |
| Governments (city, state, and federal) | Tax revenue and employment of citizens | Favorable tax treatment |
| Community | Employment of citizens; economic growth; protection of environment | Favorable tax treatment; supportive policies |

It is often helpful to categorize stakeholders as either primary or secondary. **Primary stakeholders** are entities that an organization cannot survive without, such as employees, customers, and shareholders.[11] It is likely easy for you to understand how employees, customers, and shareholders (for public companies and the owners for private companies) are essential for most organizations, but governments are also necessary as they regulate and tax most industries. Communities are another stakeholder—they provide infrastructure (e.g., buildings, roads, and water). And they are responsible for electricity and internet service for virtual organizations.

**Secondary stakeholders** generally do not have direct relationships with organizations and thus are not critical to their survival, but they can nevertheless assert substantial influence. Examples of secondary stakeholders include trade groups, special interest groups, and the media (old school and social).[12] The key learning point is that you and your employers are well served to identify and consider the values and business ethics expectations of both primary and secondary stakeholders. The following Ethics in Action box illustrates how the focus and importance of stakeholders often changes over time as a company grows.

## ETHICS IN ACTION

### PRIMARY *AND* SECONDARY ARE POWERFUL AT META

For the longest time, Mark Zuckerberg, the cofounder and CEO of Meta, was able to focus his energy and efforts on building the product with supreme tech talent, attracting users and advertisers, and other monetizations of various products and services to grow the company and stock price. Key among these activities were the acquisitions of Instagram and WhatsApp. Zuckerberg and other Meta leaders had tremendous success serving all of these primary stakeholders.

However, as Meta grew, so did its challenges with secondary stakeholders, which in the past years have consumed much of Zuckerberg and other leaders' attention. Allegations have included

- Advertising for financial services that illegally discriminated against particular groups (e.g., older and female users)[13]
- Moderating user content with algorithms that promote beliefs (often false) rather than facts
- User privacy by sharing their data without their knowledge or appropriate consent
- Accusations of anticompetitive behaviors against other platforms[14]

The company has also attracted unwanted attention because of its influence during the 2016 presidential election for not sufficiently acting on hate speech and misinformation. The latter issue resulted in more than 1000 companies boycotting the social media giant by pulling their advertising from the platform.[15]

Most of these issues and battles with secondary stakeholders persist, and some have been very costly. For instance, the Federal Trade Commission (FTC) fined Meta $5 billion in 2019 for violations of user privacy. Then, in 2020 Zuckerberg announced that the company would not fact-check politicians' ads on its platforms, which effectively disregarded the backlash against misinformation.[16]

### For Discussion

1. Which stakeholders are more powerful—primary or secondary—for Meta today? Explain.
2. Which three stakeholders do you think consume the majority of Zuckerberg's attention now? Why?
3. Assume you are Mark Zuckerberg. Focusing on particular stakeholders, justify why you would fact-check content on your platforms (e.g., Meta and Instagram)? In other words, by not fact-checking content you are effectively prioritizing particular stakeholders over others.
4. Now justify the opposite position (i.e., you will fact-check), and again, focus on stakeholders when substantiating your position.

All organizations, large and small, public and private, have primary and secondary stakeholders. What is most important, however, is how they prioritize or value particular stakeholders.

### Stakeholder Approach

The **stakeholder approach** involves considering how and which stakeholders will likely be impacted by or react to your or your employer's actions.[17] Stakeholders therefore are fundamental to business ethics, sustainability (Chapters 2 and 12), corporate social responsibility (Chapter 2), and other concepts you will learn about in this book. We will learn much more about the stakeholder approach in Chapter 2 and apply it throughout the book. But because it is fundamental to business ethics and is helpful for understanding many of the other concepts and discussions throughout the book, it is introduced in Chapter 1.

It is worth emphasizing the part of the stakeholder approach definition that states "[Stakeholders] are affected by or can affect" you and/or your company. Your actions, or inactions, affect stakeholders and vice versa. This means that stakeholders have expectations regarding ethical conduct, and not meeting their expectations can cause problems for you. Making this more difficult still is that different stakeholders may have different expectations about what *they* consider ethical. **Bribery**—offering, giving, or receiving anything of value to influence the actions of another—is a common and good example.[18] For instance, in some countries (e.g., Cambodia, Yemen, Pakistan, and Iraq)[19] bribes are a common part of acquiring a customer's business or support.

Make no mistake, however, bribery happens in the United States too. It was revealed that Milton Choy, a Hawaiian businessman, bribed government officials for lucrative contracts worth nearly $20 million for his company from 2015 to 2022.[20] Senator Bob Menendez of New Jersey provided another example. He was charged with numerous crimes related to bribery, such as accepting cash, cars, gold bars, and mortgage payments from multiple businessmen in his state, who were themselves accused of trying to use the senator's position to benefit their interests in Egypt and Qatar.[21]

It also is important to realize that the focus or relative importance of any given stakeholder often changes over time, just as described in the Ethics in Action box regarding Mark Zuckerberg and Meta. The company went public in 2012, and during the early years, Zuckerberg paid little attention to regulators in the United States, let alone in other countries. And he likely gave little thought to the role the platform and social media more broadly would play in elections. Therefore, understanding who the relevant stakeholders are in a given situation, learning their expectations and the effect of your mutual actions, is critical to your ethical business success and an overarching focus of this book. To this end, let's explore some of the key benefits of ethical conduct, along with some of the costs of ethical violations.

For their part, employees expect CEOs to take action on a range of issues.

## Benefits of Ethical Conduct to Organizations

If you take the stakeholder approach, then you see that a wide range of people and groups may potentially benefit (or be harmed) by your conduct and vice versa. Table 1.3 outlines some notable benefits of ethical conduct and costs associated with that which is unethical.

| TABLE 1.3 ■ Benefits and Costs of (Un)Ethical Conduct | |
| --- | --- |
| **Benefits of Ethical Conduct** | **Costs of Unethical Conduct** |
| Performance | Legal costs |
| Employee commitment | Employee theft |
| High quality talent | Loss of talent |
| Investor money | Damaged reputation and lost investment dollars |
| Supportive regulators | Greater oversight by regulators |

And remember, various stakeholders may have different expectations and considerations of what is ethical and what is not. The bottom line is that being ethical increases an organization's competitiveness! Moreover, business ethics impact your job and career. To better understand how this happens, it will help to consider the nature of work itself.

## THE FUTURE OF WORK AND BUSINESS ETHICS

> **LO 1.2**  Explain key elements of the future of work and business ethics.

Contemplating what the future holds isn't just for scholars, philosophers, or senior executives. Now workers of all ages and around the globe are increasingly (re)considering what the future of work will look like. Whether you've given this any thought yourself, you can assume that whoever hires you for your next job has. And thanks to the global pandemic, such considerations

have become more widespread and urgent. For perspective, some experts estimate that 85% of the jobs that will exist in 2030 do not exist today![22]



Neither you nor anyone else can see the future. But all employees and employers are well served to consider the implications of some fundamental factors—how work will get done, who will do it, and where and when it will get done.

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### Three Critical Considerations for Your Future Career

Although, we could spend the entirety of this book speculating about the future, instead we will distill the diverse views of experts into three common elements that will undoubtedly be a part of not just any future but *your* future of work:

- **How will work get done.** Some people fear that automation and AI will replace workers, and undoubtedly this will happen to some degree. But the ethical and business challenge is to determine how people will collaborate with technology to benefit themselves and their employers (e.g., better job performance), along with other stakeholders (e.g., customers and suppliers). You will learn more about the implications of technology for business ethics in Chapter 7.

- **Who will do the work.** Employer–employee relationships have many different forms already, notably traditional full- and part-time employment, contract employees, and gig workers. The mix of these is here to stay, meaning that both employees and employers will need to determine which form and mix is best.

- **Where and when.** Collocating, that is working in a physical office with coworkers, working remotely, or some sort of hybrid arrangement are all common, as are various forms of flexible work schedules. Thanks to COVID, employees and employers around the globe are and will continue to determine which form and how much flexibility is best for them.[23]

As it relates to business ethics, most any version of the future of work is one that provides more opportunity, more meaning, and perhaps even more equality for more workers locally, nationally, and around the globe.[24]

Throughout this book, we will address many elements of work and their associated business ethics implications that will likely affect your jobs and larger career, such as the potential impact

of technology (e.g., automation and artificial intelligence; Chapter 7) and employee monitoring (Chapter 5) but also differences between countries (Chapter 11), environmental issues (Chapter 12), and the role of business in social justice and change (Chapter 13). Next, however, let us consider meaningful work: what is it, whose perspective matters, and who is responsible for making it a reality for you and others?

## What Is Meaningful Work, and Whose Responsibility Is It?

Do you want a meaningful job? Of course, you do. And a collection of meaningful jobs over time creates meaningful careers. This may sound simple, even self-evident, but when you consider these questions and the ethical implication, things are a bit more complex. First, what is meaningful work?

Experts generally agree that **meaningful work** is personally and/or socially significant and worthwhile.[25] But even this short definition reveals part of the challenge. To be meaningful, does work need to be impactful only in your eyes, or does it need to contribute to others in some way?

From an individual's perspective, work is often thought of as meaningful if one achieves their own goals and aspirations. Do the responsibilities of a particular job utilize your skills and abilities, and are these tasks worthy of your time, attention, and effort? Related to this are those that argue individuals should pursue their personal passions and find **work that is a calling** and is perceived as morally, socially, and personally significant. Notice that this perspective could cause a conflict for you—that is, do you serve yourself or serve others?[26]

Yet another perspective views meaningful work as a human need or even a right. This suggests that organizations (e.g., employers) have a responsibility to provide work environments in which individuals have the opportunity to pursue meaningful work.[27]

You need to decide for yourself which is most appropriate while understanding that these perspectives can coexist.



Finding meaningful work—or even your dream job—is an eternal quest for many people. You can increase your chances of both with some self-reflection and knowledge learned in this course.

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Meaningful may simply mean what is best for you (an egoism perspective discussed later in this chapter) or that it is a right or need of employees and thus a duty of employers to provide such opportunities (deontological ethics discussed later in this chapter).

Of course, meaningful or not, no discussion of jobs, careers, and ethical implications therein is complete without addressing remote work head-on.

## Remote Work—Real Implications

Although remote work has long been a part of the world of work, few people could have imagined how COVID would accelerate its use and impact on workers around the globe. For perspective, prior to the pandemic, only 4% of the workforce worked exclusively remotely; this then rose to 54% during the lockdown. Perhaps more notable are reports from 2023 revealing that remote work is still more than four times greater than it was pre-pandemic![28] In conclusion, remote work will be a part of your future.

But what about productivity? One of the common arguments by employees, perhaps one you share, is that so long as an employee is productive, then why should an employer care if the work is done remotely or not? That seems reasonable on its face, but current statistics are wildly mixed, ranging from productivity increases of more than 20% to decreases of nearly same—and

everywhere in between.[29] Of course, there are other legitimate employer concerns, such as the impact on organizational culture, inclusion, and mentoring and other forms of career development.[30] As a result, relatively little work is 100% remote; the more common situation is **hybrid work**—a mixture of in-office and remote work. The number of job-postings for this type of work are three times greater now than in 2019 (pre-pandemic).[31]

The reality is that more work is and will be done remotely, and among other benefits, this enables many workers greater flexibility in where they live and actually do their work. Many moved from expensive cities to less costly suburbs and states. Working parents have greater flexibility to raise their children and fulfill other family responsibilities.[32]

Generally, employees appreciate greater flexibility in where, when, and how work is done, but research also shows that the type of work, employer policies, and management support are critically important to make flexible arrangements work. For instance, what good is flexibility if it ends up impeding your promotion opportunities, or if policies allow it but your manager doesn't practice it.[33]

How will your work and life intersect? What are your preferences? What does your preferred employer provide? The answers to these questions will continue to evolve, and answering them can help you select appropriate jobs, negotiate terms, and be more fulfilled over time.

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It should be no surprise, however, that the ethical implications are numerous. Current research often shows that remote workers actually work more and take fewer breaks! This of course could contribute to productivity gains, but is this desirable or sustainable over time? There is growing evidence, for instance, that remote workers experience more mental health issues than those that work in the office full time.[34] Some notable examples are outlined in Table 1.4, while others will be elaborated in other places in the book.

| TABLE 1.4 ■ Potential Benefits, Costs, and Ethical Implications of Remote and Hybrid Work | | |
|---|---|---|
| **Benefits to Employers** | **Benefits to Employees** | **Potential Ethical Challenges** |
| Increased productivity | Increased work-life satisfaction | Balancing employee well-being and productivity tradeoffs for flexible work arrangements |
| Lower real estate costs | Lower taxes, less time and cost commuting, and more flexibility in housing location and choices | Cause community businesses to close due to fewer customers coming to cities and office buildings for work |
| More attractive to potential employees | Greater number of (attractive) job choices | Increased inequalities due to loss of lower-paying jobs for people that served office workers |
| Greater ability to attract and retain working parents (especially women) | Reduction in potential pregnancy penalty (money and opportunities lost due to having kids) | |

Now that we've set the stage by exploring the consequence of ethics for business and the nature of the world of work in which you'll build your career, let's combine the two and more directly address the importance of ethics for your career.

## THE IMPORTANCE OF ETHICS FOR YOUR CAREER

> **LO 1.3**      Summarize how ethics can affect your job, career, and role in society.

Most people are good and have genuinely positive intentions, but being a good person isn't enough when it comes to business ethics. First, you need to have **moral humility**, which is recognizing that you (and all people) make mistakes and can cross the ethical line.[35] You therefore need knowledge, skills, and practical tools to effectively navigate the numerous and inevitable ethical challenges you'll be confronted with during your working life.

Second, it also is helpful if you not only avoid unethical conduct but also think of ethical business conduct as something positive and worthy of your efforts. To this end, a fundamental theme to this book is to help you understand and manage ethical challenges more successfully and improve your job performance and career opportunities as a result. We begin with a basic and crucial consequence of ethical conduct—trust.

### Competence, Integrity, Trust, and Success

You already know how fragile trust can be, as people violate your trust from time to time in your social life, and sometimes, these relationships are completely repaired. However, when trust is violated by someone in your professional life, things rarely return to "normal." And of course, unethical conduct is one of the quickest and most consequential ways of violating trust. All of this means that the importance of the relationship between business ethics and trust cannot be overstated, for you, other individuals, and organizations.

A survey of business executives by global consulting firm PWC found that 91% think that their ability to build and maintain trust improves their bottom line. Impressive? Sure. But even more useful is their given reason why it matters so much—that is, trust makes it more likely you'll receive recommendations and referrals![36] For you, that can mean more job opportunities, more interesting responsibilities in a particular job, and/or more business from existing or new customers, among other benefits.

But what does this mean as a practical matter? Don't violate another's trust? Sure, but that is a bit simplistic. Volumes of research shed light on the topic and help us understand and thus use knowledge of trust more effectively. Specifically, it is helpful to consider two forms of trust—competence and integrity based. **Competence-based trust** involves the expectation that a person or organization has the skills, ability, experience, and reliability to deliver on its obligations. **Integrity-based trust** involves the perceptions of a person's or organization's (i.e., employees) intentions, honesty, and character.[37] Competence is skill; integrity is ethics.

Both forms of trust reduce the effort and costs of interactions between individuals and organizations, such as more efficient negotiations, smoother dispute resolutions, and greater cooperation and flexibility when dealing with uncertainty and changes.[38] All of these are important for you, your relationship with your employers, and relationships between your employers and other stakeholders. These are the benefits these forms of trust share, but they do differ.

### All Breaches of Trust Are Not Equivalent

If you or your employer fail to meet the competence expectations of another party, only once, they are likely to see it as a simple mistake, an error in one particular instance of the relationship or business. They may give you and/or your employer another chance—not always but often. However,

people are more likely to perceive a single breach of integrity trust as a general lack of character and honesty, and they are likely to apply it to you and your employer across the board and over time. People tend to assume that you and/or your employer are bad actors in every dealing.[39]



Trust is invaluable in your working life. Be sure to foster it, avoid eroding it, and learn to repair it.

Westend61 via Getty Images

### The Benefits of Employee–Employer Trust

When employees who trust their employers are compared to those that don't, the trusting are

- 44% more likely to promote or advocate for their employer to customers and potential employees

- 43% more likely to be loyal to their organization

- 40% more likely to be engaged in their organization's initiatives and development

- 37% more likely to be committed to performing their best at work[40]

It also is helpful to emphasize that trust works both ways, employees trusting their employers as well as employers trusting their employees. Ethical employees can build a sense of trust from their managers, who in turn do not have to spend as much time, energy, and thus money supervising trusted employees. This is exactly what was found in research investigating the benefits of partners at accounting firms and the level of trust generated by the ethical conduct of their subordinate auditors.[41]
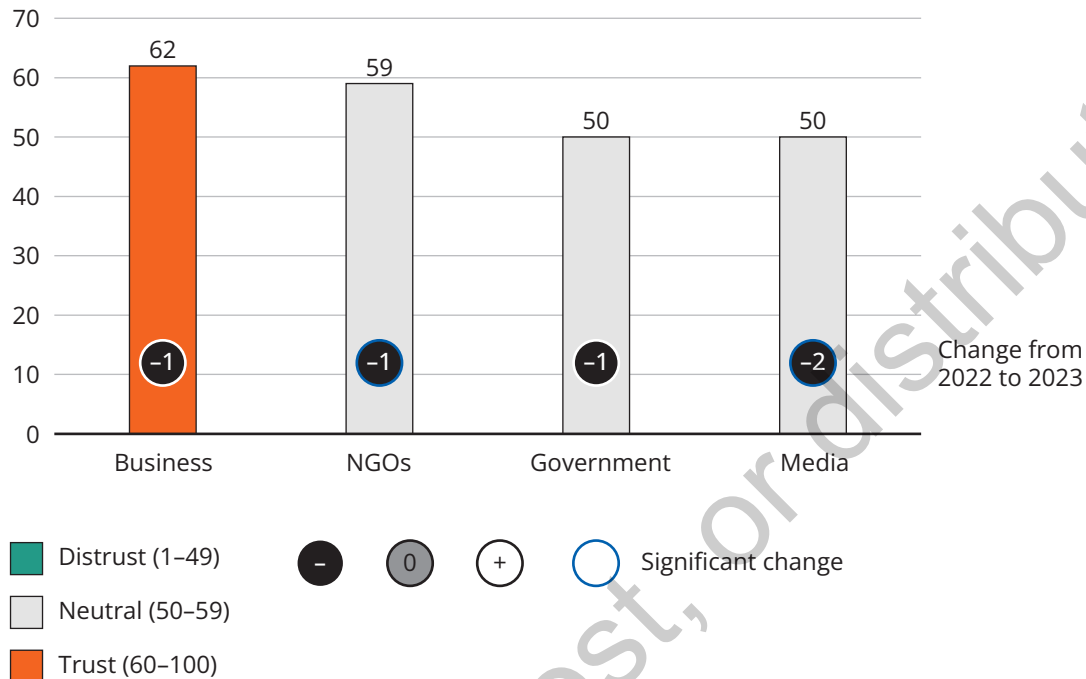
These are very important outcomes and speak volumes about the value of trust in the employer–employee relationship. Employer–employee relationships, however, play out on a larger landscape of trust people have for institutions and those doing particular jobs.

### Trust in Institutions and Jobs

More generally, the status of trust in our society is ailing. According to the 2023 version of the annual Edelman Trust Barometer, which surveyed over 32,000 people in 28 countries, of the four major institutions (business, nongovernmental organizations [NGOs], government, and media), only business received 60% or more on the trust measure (see Figure 1.1).

## FIGURE 1.1 ■ Levels of Distrust of Institutions

### Business Only Trusted Institution

Percentage age trust



Created from 2023 Edelman Trust Barometer Special Report: Trust at Work https://www.edelman.com/sites/g/files/aatuss19
1/files/2023-08/2023-Edelman-Trust-Barometer-Special-Report-Trust-Work.pdf

Distrust in institutions can contribute to polarization—intense and entrenched differences of views and opinions—around the world. Edelman's research attributes this polarization to the following:

1. Distrust in government

2. Lack of shared identity
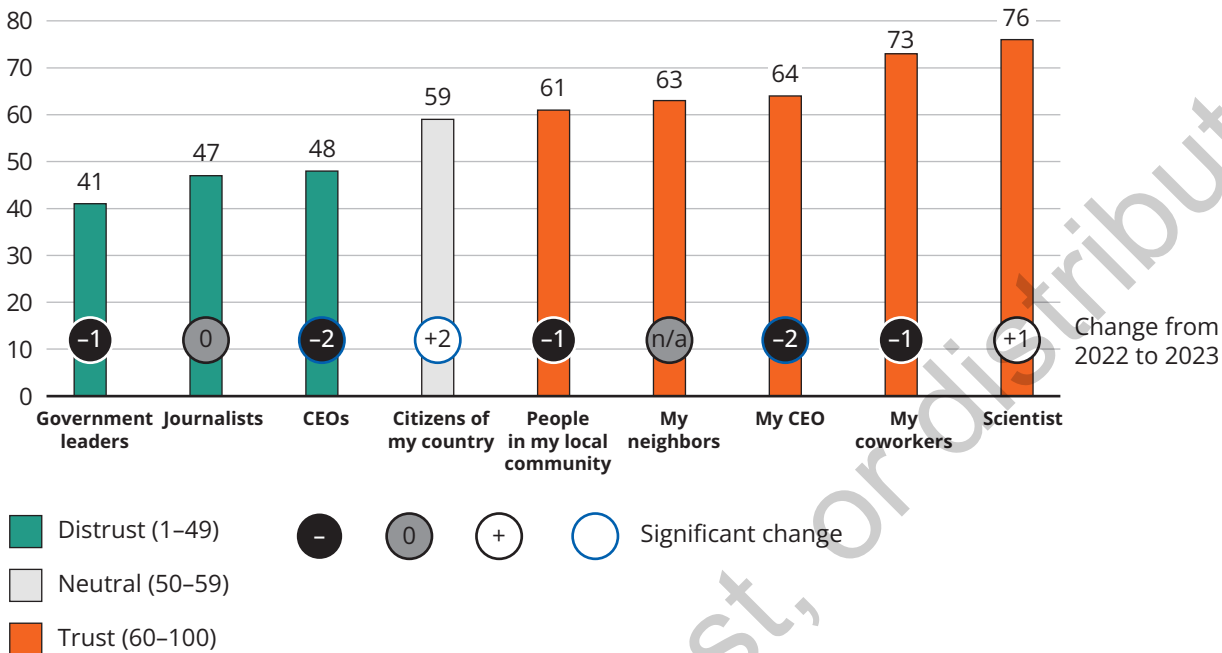
3. Systemic unfairness[42]

Results were similarly bleak for particular groups of people and particular jobs, such as government leaders, journalists, and CEOs. In contrast, people were found to report higher levels of trust in those close to them—people in their local communities, their neighbors, their own CEO, their coworkers—and scientists (see Figure 1.2).

This ugly picture is a warning to you and your employers. Many people already have a less than trusting view, which means special attention needs to be given to potential violations of trust. Thankfully, however, the same research provides some insights on how to potentially improve the situation. A majority of people feel that CEOs are obligated to do the following:

● Defend facts and expose questionable science used to justify bad social policy (72%)

● Pull advertising money from platforms that spread misinformation (71%)

| FIGURE 1.2 ■ Percentage of Trust in People Doing These Jobs |

## Institutional Leaders Distrusted

Percentage age trust



Created from 2023 Edelman Trust Barometer Special Report: Trust at Work https://www.edelman.com/sites/g/files/aatuss191/files/2023-08/2023-Edelman-Trust-Barometer-Special-Report-Trust-Work.pdf

In addition, 64% say companies could help strengthen the social fabric if they support politicians and media that build consensus and cooperation.[43]

More generally, hopefully now you have an even more detailed and practical sense of the importance of trust. We'll build on this in the next section and learn about ethical dilemmas—situations in which the "right" choice is unclear or conflicting.

### Black, White, Gray, and Ethical Dilemmas

When you think of ethics at school, many situations are clearly right or wrong (e.g., cheating on an exam). But situations that are often more challenging are ethical dilemmas. **Ethical dilemmas** occur in situations in which both options have ethical implications, often due to conflicting values or responsibilities, leaving you with no clear right or wrong decision.[44] Consider the example of a finance manager for a large auto manufacturer. The company had been struggling, along with the entire industry, and leadership decided to cut costs. Cutting costs meant cutting employees. Calculations needed to be done to determine who to cut in order to meet the goals set by senior leadership. The finance manager had the responsibility of conducting these analyses, creating the list of those to be let go, and then giving this list to the regional director who would actually take action and terminate the workers.

The dilemma can be described in terms of a conflict between the finance manager's values of loyalty to his job and employer and honesty to his coworkers, many of whom were his friends. Most people in the office knew the finance manager was involved in determining the list, and if

Oftentimes, right and wrong are clear. But dilemmas are common too, and some of your greatest ethical challenges will be dilemmas—when both options have ethical implications.

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any of his friends asked, then he had to decide between telling the truth (being honest) or being loyal to his job and employer.

Moreover, this same dilemma could easily be framed only in terms of loyalty, on the one hand to his coworker friends and on the other to his employer.

These tough or gray situations, often with no clear answer, are common. The knowledge and tools in this book are intended to better prepare you to deal with ethical dilemmas.

## ETHICS IN ACTION
### THE TV TEST

Warren Buffett, a legendary investor and one of the world's richest people, explains that ethics and trust are critical elements of being successful in business. These elements can make or break your reputation, which is something one cannot afford to lose. This is quite a challenge for Buffett who is the face of Berkshire Hathaway which has over 350,000 employees. When confronted with uncertain situations or decisions, he tells his managers to ask and answer: "How would you feel about the details of this situation if your conduct was written up in the local newspaper for all to see and read?"[45]

This of course can include any widely read media outlet online, in print, or an interview on the evening news. Scores of students over many years have roleplayed a modified version of this tool with great success. Specifically, imagine that immediately after you make a decision at school or work that you feel enters the gray zone—not clearly right, not clearly wrong—a reporter shows up and sticks a microphone and camera in your face and then asks you to explain yourself.

The stakes are raised further still if you also assume that the interview (or article) will be seen by family, friends, your kid's classmates' parents, and your coworkers (current and past).

Bottom line: If the decision passes the TV test, meaning you'd be willing to do the interview or have the article/post read, then do it. But anything close to the ethical line should not be done. Buffett says he has used this to guide his own decision making and conduct and encouraged countless managers in his businesses to do the same. You may be well served to

take Buffett's advice—his company had over $300 billion in revenues in 2022, and he ranked as the fourth richest person in the world.[46]

### For Discussion

1. Think of a tough call you've had to make. If you were required to do the interview—the TV Test—would you have changed your decision or behavior? Explain why or why not.
2. Think of an example or situation where you think someone approached or crossed the line. Imagine you stuck a microphone and camera in their face asking for an explanation. What do you think they would say?

Now that you have some understanding of the importance of ethics to business, the nature of work, and the role of trust, let's get personal and begin to explore the implications of ethics for your career.

## Plan, Learn, and Celebrate Ethics

This entire book provides knowledge and skills to help you understand business ethics and increase your job and career success. Let's begin by explaining three actions that can be especially helpful—anticipate challenges, reflect on and learn from experiences, and celebrate your successes.[47]

**Anticipate challenges.** For each job you take, identify the most likely ethical challenges you'll confront, then make a plan for how you will respond to each. If X happens, then I will do or say Y. Mentors can help in both identifying the ethical issues and planning your responses, and they can be helpful to consult with when such experiences actually occur. Being prepared makes it easier to deal with, as ethical challenges often happen very suddenly and without notice.

**Reflect and learn.** Relatively simple missteps or even colossal ethical debacles happen, and when they happen to you, it is important to learn from them. A one-time lapse is difficult enough, as it can cost you relationships and/or a job, but you don't want to make the same mistake twice. Rather than being defensive and trying to justify or rationalize what happened, instead think of your role—how your (in)actions contributed to the situation. After doing this, then think of (make a plan), what you will do if confronted with a similar situation in the future.

**Celebrate successes.** Also be sure to celebrate your business ethics victories. All of us can learn from successes and mistakes. Give yourself credit for doing the right thing, especially if it was difficult.

More generally, both individuals and organizations are encouraged to do all of these. Organizations have the benefit of history to know what types of ethical challenges are likely and what approaches work best. As for you, unless you have years of experience, then you will benefit from some help in identifying what challenges are most common in a given job, company, or industry. Don't be afraid to ask.

## Truth and Lies in Job Interviews

Research shows that 81%of people lie during job interviews.[48] Strive to be in the minority and don't lie! Use the TV Test presented earlier in the Ethics in Action box and imagine your

interview is posted online or the interview is live on the evening news for everyone you know or have worked with to see. Would the answers you provide during the interview hold up to the scrutiny of these people? Not only could you but would you want to defend your interview answers to these people? If you can answer "yes" to both questions, then you're off to a good start.

What about interviewers? One report in *Fortune* estimates that more than a third of managers lied to candidates; one third of hiring managers admit to deceiving candidates.

Now assume you own a company. How would you feel if the person you're interviewing gave the same responses as you? How would you feel about a third of your managers lying to job candidates?

The following Ethics in Action box offers advice for interviewers who are frequently confronted with the challenge of assessing the ethical nature of job candidates. When reading the questions, think of how you would respond. If you're currently working or have worked, assume you are the hiring manager, then think of how you might modify these questions to make them more relevant for that job and company.



Employers are increasingly trying to assess the ethicality of job candidates, and you are wise to do the same for prospective employers. Both require preparation—be sure to do yours!

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## ETHICS IN ACTION
### ETHICS-FOCUSED INTERVIEW QUESTIONS

As explained earlier in this chapter, there is no value in asking someone if they are ethical. Even life-long scoundrels and the most despicable people you'll ever work with say "yes." Therefore, the challenge in interviews is to get candidates to discuss actual situations and how they have or would handle them. The intent of this is to reveal their ethical compass and character. The following are a few helpful questions to ask if you're the interviewer and to be prepared to answer if you're the candidate:

1. How would you describe an ethical workplace?
2. How do you define honesty and accountability at work?
3. Tell me about an ethical challenge you have faced?
4. Assuming you looked at our webpage, what element(s) made an impression on you and why?
5. I assume you've worked with people from different cultures, even if only in college classes. What values and ethics did you find similar and different?
6. If (or when) you have ethical concerns at work, who will you consult? Describe.
7. How would you describe an ethical employee?
8. How would you describe an ethical employer?[49]

### For Discussion

1. As an interviewer, what are two questions you would ask to help assess a candidate's ethicality?
2. As a job candidate, pick two questions that would make you the most uncomfortable if asked during an interview?

For your jobs and career, remember that trust is fragile and once lost in the business arena, it can be hard to recover. Therefore consider the following:

1.  Who might be affected by your conduct (stakeholder approach)?

2.  How can you effectively deal with ethical dilemmas using the knowledge and many tools in this book, including the problem-solving approach explained next?

3.  During interviews and even after accepting a job, ask the following questions: What types of ethical dilemmas am I likely to confront in this job? How does this company advocate ethical conduct? Please describe policies, practices, or examples related to ethics.

Bottom line: Trust is fragile for both individuals and organizations, and people have consistently felt fairly low levels of trust for people in particular jobs and institutions. Also, people are more forgiving for a lack of competence-based trust than integrity-based trust.

The final two sections of this chapter present practical and time-tested methods for understanding and guiding ethical conduct. The first focuses on ethical decision-making perspectives and the second on ethical problem solving. It is helpful to think of both as skills, and like other types of skills (e.g., driving a golf ball, doing calculus, or playing the drums), practice improves your skills. You therefore will apply both of these skills throughout the remainder of this book (in every chapter), as this will help you succeed throughout your career.

## COMMON ETHICAL DECISION-MAKING PERSPECTIVES

| **LO 1.4** | Articulate common ethical decision-making perspectives. |
|---|---|

Ethical issues surround us, and to simply say—"be a good person"—is insufficient because life is complex and challenging, especially at work. What you may not know, however, is that volumes of research and practical experience can help you understand and guide your ethical conduct. In this section, we highlight several of the fundamental ways to describe ethical decision making. These perspectives are organized into three categories—those that focus on the ends, the means, and personal traits. We then conclude the section with a discussion of ethical relativism.

### It's All About the Consequences (Teleological Ethics)

*Teleos*, a Greek word, means "ends," therefore **consequentialism (teleologic) ethics**, uses the outcomes or results of an individual, group, or organization's actions to determine the ethicality (right versus wrong). Put differently, whether a decision is right or wrong depends entirely on the outcome of that decision.[50] There are multiple approaches within consequentialism, some of which are outlined next.

### Utilitarianism

A common version of this form of consequentialism (teleology) ethics is **utilitarianism**, and it applies when the motive is the greatest good for the greatest number. Philosophers—Jeremy Bentham and John Stuart Mill (in the 1700 and 1800s)—are often credited with this approach to ethics, and they argued that the benefits of the many should be served, not just benefits to the

ruling or powerful few.[51] For business ethics and our purposes, this means that consideration of a greater number of stakeholders and the effects of actions over time are more likely when individuals and organizations use a utilitarian approach to business ethics.

More generally, utilitarianism occurs when the interests of others are prioritized over the personal gain of an individual (e.g., you) or the benefits of a powerful few in an organization (e.g., owners or senior leaders). This also occurs when cost-benefit analyses and the resulting decisions favor the many rather than the few.

However, a utilitarian approach can present truly challenging ethical dilemmas for managers when they need to reduce headcount. During the pandemic and most other economic downturns, for example, revenues and profits decline and job cuts are made to reduce costs. But it is little comfort when your employer, the one you selected instead of another due to the perceived opportunities for professional development, says, "Times are tough, and we therefore are cutting tuition reimbursement and our leadership development program." Put differently, doing what is best for the team can be difficult when it costs you.



The greatest good for the greatest number (utilitarianism) is a common approach to (ethical) decision making and policy, but common does not always mean the best. What are the pros and the cons to this approach?

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It is important to point out, however, that sometimes decisions with undesirable outcomes for some prevent undesirable outcomes for the many (or everyone)—for example, if refusing to cut some employees causes a company to go bankrupt, close its doors, and thus terminate all employees. Moreover, many government policy decisions are indeed focused on providing some level of benefit to the greatest number rather than providing substantial benefits to fewer citizens. If a company paid 100% of the medical insurance costs for managers but paid 0% for non-managers, you and most other non-manager employees would be outraged. This is a simple illustration of a greater good for a greater number—utilitarianism.

### Egoism

**Egoists** make ethical decisions based on their personal preferences or what best serves their self-interests.[52] As such, egoism is an extreme and individualistic form of consequentialism or teleological ethics. Put another way, you are an egoist if you reason that whatever course of action benefits you is right, and courses of action that conflict with your interests are wrong—or at least

worse. This approach may seem a little black and white or overly simplistic, but it is the basis for nearly one hundred years of economic and behavioral theory and reasoning.

More bluntly, we are self-interested because we are human, and all else being equal, you would choose the job with the higher pay over the one that pays less. And when confronted with an ethical dilemma, when push comes to shove, people will often choose the option they think benefits them most.

Adam Smith, the famous Scottish philosopher and capitalist of the 1700s, argued that the pursuit of self-interest is not only satisfying for the individual but that it ultimately benefits larger society. The rationale is that if an individual or an organization does not strive for and serve its self-interests, then they will not generate resources and opportunities for others, such as growth, jobs, and higher wages.[53]

Business in general as well as particular employees are accused of being greedy. Greed is a form of egoism and is associated with some industries more than others—nursing versus investment banking. But be careful, egoism is a human thing and not exclusive to a particular job or industry.

As an ubiquitous example, a large proportion of public company CEOs compensation is tied to the stock price of their companies. It therefore should be no surprise that many of their goals and actions aim to boost the stock price and thus their compensation. Many argue that the Great Recession (2007–2009), for instance, was in large part a consequence of how people from the top to the bottom of financial organizations were rewarded.

To elaborate, mortgage providers earned more money by selling mortgages to home buyers, and investment firms on Wall Street packaged these mortgages into investment products that were in turn sold to investors. They all got paid and often paid well. The rewards were so lucrative that the cycle became self-reinforcing. Mortgage providers did what was necessary to finance more homes (e.g., loosened buyer qualifications), and Wall Street firms created new and more sophisticated packages of mortgages to attract more investors, not just in the United States but around the world. This was rational. This was egoism on a grand scale.

But then it all stopped. Housing prices fell, homeowners defaulted, and all of those who invested in the mortgage-backed products saw the values plummet. This happened to homeowners, banks, mortgage companies, and to Wall Street firms and their many investors.

Let's be clear. You need to advocate for your personal interests in every job you'll ever have; this is necessary in order to create and realize opportunities. This is smart and expected, but the ethical challenges arise when you pursue your own interests always or without appropriate regard for others. For instance, if you use your power as the boss to undermine the reputation and opportunities of another employee because you feel threatened by her excellent performance, then you're likely taking your interests too far and illustrating egoism. People that are manipulative or highly political are often egoists, as they scheme and betray others to serve their interests and get ahead at the expense of others. Beware, these people fill many roles in our lives—managers, coworkers, coauthors, mentors, friends, and even family members.

Often the more ethical and sustainable approach is to carefully consider the relevant stakeholders and the possible courses of actions and associated consequences and then pursue a reasonable course and outcome. This is exactly one of the intended applications for the

3-Dimensional Problem Solving for Ethics approach (3D PSE) introduced in the following section of this chapter.

Bottom line: You are well served to be mindful of the consequences of your actions for a wide array of stakeholders, for better and for worse.

Another foundational approach to ethics focuses on rules or duties rather than outcomes.

### Your Motives and Deontological Ethics

*Deon* means "duty" in Greek and is often credited to Immanuel Kant, an 18th-century German philosopher. **Deontologists** make ethical decisions based on moral principles of what is right and wrong, and they give primary attention to the intentions or motives of their actions rather than the consequences.[54] They further believe that some basic principles should be followed in all situations, regardless of the outcome.[55]

### Universalism

Central to deontological ethics is the concept of **universalism**, which occurs when you follow particular ethical codes or rules in all situations and with all stakeholders, regardless of the consequences. Notable examples are the following:

- Don't lie

- Don't cheat

- Don't steal

- Don't say anything *about someone* you wouldn't say *to someone* (i.e., "behind their back versus to their face")

Applying this to business ethics, you might think it is essential to treat everyone with respect and dignity, ideals reflected in basic human rights, many arguments related to equality, as well as many of the world's religions.

Following such universal standards is easy to admire but difficult to implement, given they are absolute, unwavering, and inflexible. For instance, patient autonomy—the right for a patient to decide for themselves whether to accept treatment or not—is a widely held standard among medical professionals. On the surface, this seems reasonable or "right," as most people would agree that they aren't required to have surgery or take a medicine simply because a doctor recommends it. You can say no. You have a choice. However, if autonomy is universal, then every patient, without exception, should have the right to choose for themselves. This obviously can become quite problematic for people with altered mental status, psychiatric illness, or intellectual disabilities. Many would instead argue that it would be irresponsible—wrong—to allow such patients to make critically important medical decisions for themselves.[56]

More generally and as a practical matter, both individuals and organizations have difficulties following universalism ethics in the work context. Doing so would result in each individual or organization doing things "their way" regardless of the situation, such as the same in every country, with every customer, and every employee. But again, remember, some standards (e.g., respect and fairness) are widely if not universally shared and expected. We will explore these in various places throughout this book.

### Categorical Imperative and the Golden Rule

**Categorical imperative (CI)** is a rule that applies in all situations regardless of the consequence.[57] CIs are ways to test if a particular principle is universal or not. Let's explain using honesty. Most people would agree that honesty is something we should practice—it is universal, a categorical imperative. However, you likely can quickly think of exceptions. Would you tell someone the truth if it would hurt their feelings? Would you tell your friend you think they are unqualified and "don't have a snowball's chance in hell" just before they go to a job interview? Would you tell your coworker they are an idiot and everyone thinks so? Although these examples may seem trite or even ridiculous, the point is that there are exceptions. If there are reasonable and real exceptions, then a given standard is not a categorical imperative and thus not truly universal.

A quick way to determine if a particular value or principle (e.g., honesty) can be universally applied at work is to ask yourself the following questions: If everyone confronted with the same situation did X (e.g., was honest), would the individual /company be a better off? If the answer is yes, then it is right according to deontological ethics, and if the answer is no, then X is wrong.

A good way to test your ethical compass and test your actions is to use the Golden Rule—how would you want to be treated if the tables were turned?

Carol Yepes via Getty Images

More generally, despite the potential practical challenges, you—along with your manager and your employers—can uphold some basic standards or categorical imperatives of fairness, kindness, and respect. Put differently, it is difficult to think of situations (at work) in which individuals and groups should not be treated consistently with at least these three.

And if you personally are ever in a tough spot or confronted with an uncomfortable ethical situation, remember the **Golden Rule**—assume the roles are reversed and treat that person as you would like to be treated by them. This won't solve every challenging situation, but it will solve many.

### Virtue Ethics

**Virtues** are qualities of an individual that define one's moral character or "goodness" and make positive contributions to society. **Virtue ethics** focuses on the personal qualities of the individual rather than the outcomes of actions or rules followed. For instance, a virtuous person is honest and fair (two virtues that are common across cultures) because they believe this is what makes a good person good—not because it is expected by others or because it will generate a personal advantage or benefit in a particular relationship. Aristotle, who was interested in understanding the intentions and motivations of good people, is attributed with originating this ideal.[58] He claimed that adopting, embracing, and habitually enacting virtues is what causes people to achieve the ultimate level of happiness and goodness.[59]

So then, what are common business virtues? Researchers have explored this since the 1990s, and one influential early study identified 45 different business virtues! More recent work refined and reduced the original set in the 13 listed in Table 1.5.

On the surface, this may sound quite abstract or at least different, but a virtues approach to ethics is common and can indeed be quite practical.

A person who takes a virtuous approach to business ethics asks, What type of person do I want to be? rather than, What should I do (deontological ethics)? or, What will produce the most

| TABLE 1.5  ■  Business Virtues | |
|---|---|
| **Business Virtue** | **Brief Definition** |
| **1.** Justice | Deal with people fairly |
| **2.** Integrity | Be true to yourself |
| **3.** Honor | Be true and hold your head high |
| **4.** Articulate | Express yourself clearly |
| **5.** Cooperative | Effectively work with others |
| **6.** Tolerant | Endure difficulties and differences |
| **7.** Autonomy | Make decisions for one's self and establish an identity |
| **8.** Cool-headed | Maintain composure |
| **9.** Determined | Persist through challenges |
| **10.** Entrepreneurial | Take initiative and risk |
| **11.** Passion | Evident enthusiasm for something |
| **12.** Style | Correctness and clarity of speech |
| **13.** Saintliness | Seek excellence of personal character |

*Source:* Created from D. Dawson, "Measuring Individual's Virtues in Business," *Journal of Business Ethics*, 147 (2018): 793–805.

desirable outcome (teleological ethics)? This approach to business ethics thus focuses on the individual, who by living their positive traits (virtues) consistently influences others to do the same. (You'll learn more about influencing others through virtuous leadership in Chapter 6.)

Real world examples abound. Religions and professional or trade organizations often have codes of conduct (Chapter 9) and values (Chapter 8) that guide the behavior of their members. Both of these often represent virtues of the organization, which are the collection of virtues of the employees. For instance, the Reiter Affiliated Companies, based in Oxnard, California, have existed since 1968 and are known for growing some of the finest berries in the world (strawberries, blueberries, raspberries, and blackberries). They have a long history of sustainable and organic farming, along with a deep-seated commitment to treating their stakeholders according to three virtues—honesty, fairness, and respect.[60] The founding family created and continues to pursue their mission: "Relentless pursuit to delight our consumers and enrich our employees and communities."

The company's giving is not politically motivated, but it instead is intended to improve the health and well-being of its farmers, their families, and the communities in which they live. They have and continue to base their success on multigenerational employees and partners, not just the founding family.[61]

Virtuous people are motivated by the desire and commitment to being a good person rather than conforming to the expectations of a particular situation or organization or the rewards and recognition received in return.

Now that you have a sense of the three pillars of classical approaches to ethics and their application to business, we turn our attention to something completely different—relativism. In this approach, rather than applying the same ethical standards in all situations or pursuing good

for goodness' sake, relativism describes how the appropriate conduct can and should change, depending on the situation. In other words, ethics are relative.

## Relativism

The essence of **relativism** as an approach means that ethical conduct is dependent on the norms of the context, thus changing contexts may change what is considered ethical too.[62] If a behavior matches what is considered normal or typical in that particular group, company, or country, then it is ethical. Part of the issue with the relativistic approach is that there are no universals. If, for instance, your job requires you to do work in a country where it is the norm to oppress women or other members of the population, then from a relativistic perspective, it would be appropriate (i.e., right or ethical) for you to do the same. If confronted with such a situation, you might say, "I object, and I'm not going." Okay, and you might even keep your job, but you would still be working for a company that does business in places and with people that do oppress women. Is this better? Such conflicts or dilemmas are common with a relativistic approach to business ethics.

More generally, unethical, or at least questionable, behavior can become a norm and cause otherwise well-intentioned and ethical employees to do the wrong thing. You'll learn much more about this in Chapter 8 regarding organizational culture and business ethics, but relativism is one way to explain the downfall of Enron and its accounting firm Arthur Andersen.

Arthur Andersen was one of the world's premier accounting and consulting firms. Its clients included a laundry list of the largest companies in the United States and around the world, one of which was Enron, an innovative and fast-growing energy supplier and trader in the 1990s. Along with its impressive innovations, Enron was guilty of inflating revenues, hiding expenses, and misleading numerous stakeholders. For its part, Arthur Andersen helped the company make these activities appear above board, legitimate. Once the truth was unveiled about Enron, so too was the scope of Arthur Andersen's role. Making matters worse, it was ultimately discovered that Arthur Andersen systematically destroyed documents in an attempt to hide their misconduct.[63]



People will do many things to cover their unethical tracks. Arthur Andersen, the former consulting arm of the large accounting firm, engaged in the perhaps the most infamous shredding efforts in modern business history. The company destroyed countless pages of evidence related to its illegal and unethical practices for its client—Enron.

bagi1998 via Getty Images

In terms of relativism, Enron and Arthur Andersen showed how unethical conduct can appear appropriate if the norms of the context support it. Put differently, between them, Enron and Arthur Andersen employed nearly 100,000 employees, and although there were some bad apples in the bunch who knowingly did the wrong thing, nearly all of these people were upstanding professionals, devoted to their careers and their employers (i.e., good and ethical people). It was the conduct of their previously highly regarded employers that legitimized the conduct that ultimately caused their demise. In other words, at Enron and Andersen, accounting practices that were inappropriate in other companies were not only allowed but rewarded—ethical conduct was relative.

Relativism also occurs across national borders. The classic expression, "When in Rome, do as the Romans do," captures cultural relativism. But this idea is a double-edged ethical sword. If your country's ethical standards are more inclusive and considerate and you uphold those in a host country, then most will think you are taking the high-road and more ethical path. However, it can cost you business if the ethical norms in a host country include bribes in the form of cash or other favors.

Another example is the differing views in preferential hiring of relatives or friends, called nepotism,[64] in Spain and the United States. Although preference for family and friends definitely influences many hiring decisions, laws prohibit many such hires. And even when not illegal, it is often frowned upon, and the family member is perceived as unfairly favored (e.g., less qualified). The Spanish, in contrast, routinely hire family, and it is often expected. Culturally, the Spanish are expected to take care of family, including securing them employment even when the family member is not necessarily the most qualified candidate. This practice is supported not only by tradition (norms) but also with the belief that hiring family builds employee loyalty. Generations will look out for each other, be committed to the employer while being committed to each other, and be less likely to seek or leave for another employer.[65]

Moreover, relativistic organizations most often simply comply with legal standards, and as you learned, because it is legal doesn't mean it is ethical. This is one reason why many companies have been criticized for outsourcing manufacturing and services to other countries with lower standards in terms of environmental regulations, employee rights, and working conditions. Examples include the infamous sweatshops and low-wage work many U.S.-based companies have taken advantage of when sourcing work to China, Southeast Asia, Africa, and Latin America.

It would be helpful for you to take a moment and review the common ethical decision-making perspectives you just learned about, as they are fundamental to understanding and managing business ethics. Furthermore, you will be asked to apply your knowledge of these perspectives throughout the book, including within the next section, where you'll learn about a widely applicable tool for addressing ethical challenges at work. Versions of this approach have been taught to and used by thousands of my students over many years. The hope is that you too will benefit.

## USING THE 3-DIMENSIONAL PROBLEM SOLVING FOR ETHICS TO IMPROVE YOUR PERFORMANCE

> **LO 1.5**    Articulate how to use 3-Dimensional Problem Solving for Ethics to improve your ethical performance.

Throughout this book, you are provided with practical tools for understanding and managing business ethics. 3D PSE is one such tool and is composed of three parts or dimensions:
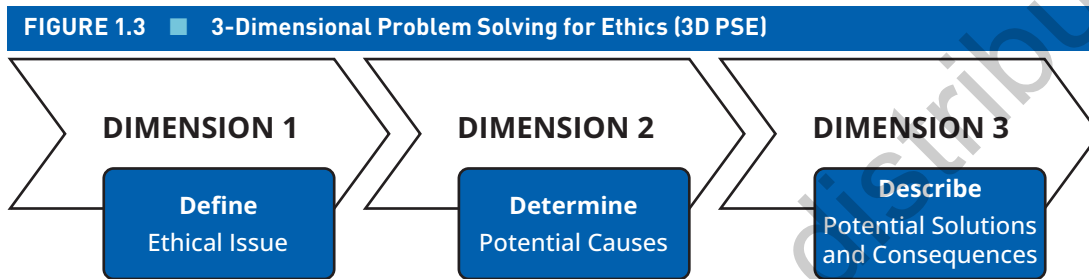
- Dimension 1: Define the problem

- Dimension 2: Determine the causes

- Dimension 3: Describe the solutions

The three dimensions are the three Ds. You'll have opportunities to apply this tool and build your problem-solving skills by applying the 3D PSE to the case at the end of every chapter. This tool is simple, intuitive, and effective. Let's learn about the approach by applying it to this simple scenario.

**Scenario:** Assume you are a sales representative, it is the end of the quarter, and you are working extremely hard to meet your sales goal. Not only is it what your boss expects, but you can also earn a large bonus. The key to making your goal is to close a potential sale with a long-time and significant customer. The customer told you they will go with

your product instead of the competitor's if you provide them tickets to the Taylor Swift concert scheduled in your city the next weekend. (You let it be known in casual conversation that you had secured tickets already.) What would you do?

You, like many people, may simply provide the tickets or find something else the customer wants and be done with it. However, you may have a different view if your company forbids gifts of any sort, viewing them as bribes or "paying for business." Now what do you do? Let's apply the 3-Dimensional Problem Solving for Ethics approach to guide your decision (see Figure 1.3).

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**FIGURE 1.3 ■ 3-Dimensional Problem Solving for Ethics (3D PSE)**

**DIMENSION 1**
**Define** Ethical Issue

**DIMENSION 2**
**Determine** Potential Causes

**DIMENSION 3**
**Describe** Potential Solutions and Consequences

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### Dimension 1: Define the Ethical Challenge

Ethical challenges can be described in the same way. The critical first dimension in effective problem solving is defining the problem correctly. It can be helpful to think of **problems** as gaps between what you have and what you want—your current state versus desired state.[66] The widely used example of this is a visit to the doctor when you are sick. Sound medical practice involves determining the underlying cause rather than simply treating the symptoms. For instance, let's say you have a fever and the doctor assumes it is due to the stress you experience from work and school demands. Then, without gathering any additional information (e.g., running tests or considering other symptoms or causes), the doctor recommends taking Tylenol every eight hours. Sure, this may reduce your fever for some period of time, but what if the underlying cause of the fever was a bacterial infection, which Tylenol does not "cure" or treat? It is likely the infection will intensify and cause you to be even sicker, miss school and work, need to return to the doctor, and maybe even be hospitalized if you develop pneumonia.

It obviously would have been more effective had the doctor considered other possible causes that may have resulted in different treatments.

You need to do the same to address ethical challenges more effectively. First, you need to determine from whose perspective you're going to analyze the case. Most often the text preceding the case will recommend a particular person's perspective (e.g., a CEO, manager, or employee). In the preceding scenario, you are analyzing the case from your perspective as the sales representative. Accordingly, what is the gap in this scenario? What do *you have* (current situation), and what do *you want* (desired state)?

- Is it simply that you want the sale and don't have it? From your perspective, this makes sense.

- Or is it that the customer really likes your product better and actually intends to purchase it instead of the competitors but wants to test your ethical boundaries? This makes it more challenging.

You can see that how you define the problem can make a significant difference.

### Define the Problem as a Gap (in one or two sentences)

Now, define your problem in one or at most two sentences, and structure it in terms of what is current versus what is desired (have vs. want). One potential problem definition is that you want to close the sale, make your goal, and earn the bonus. You have a customer that can do this but is asking for something besides the product in return.



It can be helpful to frame problems as gaps between what you have and what you want. Knowing where you are and where you want to go can help set the stage for effective problem solving.

istock.com/Dilok Klaisataporn

### Test and Refine Your Defined Problem

To test and refine your defined problem, it is helpful to ask, "why is this a problem?" multiple times to test and refine your defined problem. You will find that it often changes from your first attempt.

Why do you, as the sales representative in the preceding scenario, feel this is a problem? What difficulties or undesirable behaviors and outcomes happen because of the problem you defined?

- Is it simply because you want the sale for this quarter and will do what it takes?

- Alternatively, do you think that the customer should purchase your product on its merits alone, and are you willing to risk the sale and money and not provide the tickets?

- Or do you think the Taylor Swift tickets are just "too much," as you promised your kids or partner that you would take them to the concert?

### List and Describe Stakeholders and Impact

It then is important to identify the important stakeholders in the case—both primary and secondary—and explain in some reasonable detail why the problem you defined affects or is affected by each. In the same preceding scenario, consider the following:

- This focal customer is a clearly an important and primary stakeholder. How you handle this situation could influence the relationship in the future. It is possible that you don't provide the tickets and lose this sale but get other sales in the future? Or if you provide the tickets, this customer may ask/expect other "favors" in the future.

- Other customers (also primary stakeholders) could learn that you provided tickets to the focal customer in the scenario, and then they may expect something from you in exchange for future sales.

- Your manager and coworkers (also primary stakeholders) may also be affected. If you provide tickets, then their customers may request and even expect favors like the one you provided.

More generally, it is very important to consider and note that you need to be specific about relevant stakeholders and be careful about lumping all customers, employees, managers, or other groups together, as any particular ethical problem likely does not affect all of them—or at least all of them the same. Put more directly, *it is insufficient to simply list stakeholders* when answering this question and completing this part of Dimension 1.

Review your defined problem one more time before moving on to Dimension 2 and determining the causes.

## Dimension 2: Determine the Causes

After you have clearly and confidently defined the problem, you are ready to consider the potential causes. It is helpful to allow for the possibility of many causes, and it can further help to think of two general sources of causes—those that reside with the key individual from whose perspective you're analyzing the case and causes that reside in the context. These are explained in more detail next.

### Individual Characteristics That Cause the Problem

How a problem is defined depends on from whose perspective. And like many things in life, including ethical challenges at work, characteristics about particular individuals can contribute to or cause problems. Referring back to the sales scenario, assume you are greedy (an individual characteristic) and willing to close the sale at any cost. Alternatively, perhaps the situation is that without the bonus, you will be unable to pay your tuition or rent, meaning that you have genuine financial demands (also an individual characteristic) with serious consequences.

Part of the cause may be with the customer. Perhaps they are truly testing you to see if you will compromise your ethical standards to get the sale. They may be impressed if you do; however, they may also choose not to do any business with you or your employer in the future. They also may simply be trying to get something for nothing and have questionable character. All of these could qualify as individual characteristics (of the focal customer) that influence the situation and problem. We will explore and learn about many different individual characteristics that cause (un)ethical conduct at work in future chapters in the book, such as moral development, moral intensity, and moral disengagement in Chapter 3 and values and moral courage in Chapter 4.

This is also where you would include specific ethical decision-making perspectives you just learned, such as egoism, utilitarianism, or virtues.

### Contextual Factors That Cause the Problem

These can be values, policies, and practices in particular organizations or industries. One powerful cause in the scenario may be your performance management system. What if your sales goal is unrealistic or the economy is in a recession, and it therefore is unrealistic for you to achieve the sales goal? This could be made even more difficult if the bonus is large and/or meeting the goal is necessary for a promotion. It also is entirely possible such gifts or sweeteners are industry norms, meaning they are common with no formal policies forbidding them.

Given the way you defined the problem, what are the potential contextual causes in the scenario, using only information contained in the case? For each cause, it is helpful to refine and

clarify by asking, How does this cause the problem I defined? If you ask this question repeatedly for each cause, you may redefine your problem and be more confident you determined the appropriate causes.

### Dimension 3: Describe Your Solutions and the Intended and Potential Unintended Consequences for Stakeholders

If you have been diligent in defining the problem and determining the causes (Dimensions 1 and 2), then generating potential solutions will be easier—maybe not easy but easier. Just as doctors do, it is best to "treat" the causes, as addressing these effectively most often improves or remedies the problem. Consider each cause and create a solution aimed at the causes, then develop your response by answering the following questions regarding your proposed solution.



Problem-solving skills are repeatedly one of the most sought after skills in surveys of employer wants. Build yours and the quantity and quality of your job opportunities will grow.

### What Will You Do, How Will You Do It, and Why?

This is the action planning part of the 3-Dimensional Problem Solving for Ethics approach—it is where the "rubber meets the road." You need to provide reasonable detail—be action oriented and specific.

Think of this as making the business case for your problem-solving proposal, and although many methods exist, most include compelling descriptions of what will be done, how, and why. Including these details can also help you gain clarity about your intentions and help resolve dilemmas.

If your responses to these questions are unsatisfactory, then go back to Dimension 1 and repeat the process. If, however, you are comfortable and confident in your problem-solving efforts thus far, then ensure you achieve the desired outcomes and avoid any unintended consequences.

### Test, Refine, and Conclude

You're almost finished! A couple of final checks can further refine and improve your problem solving as well as serve as a "preliminary test" of your likely success. To do this, ask yourself the following:

- What is the *desired and likely effect in the short- and long-term* for you and the key stakeholders described in Dimension 1? This question forces you to check your problem-solving efforts and get clear on the desired outcome(s). Moreover, considering

the potential effects in both the short and long term gets you to think about the sustainability of your proposed solutions. The consequences (negative/positive) of some actions only occur over time.

- What *potential unintended consequences* may occur with each proposed solution? In the scenario, for example, if you decide to provide the tickets or some other enticement to the customer, then they may expect it from you again in the future (it becomes a norm) or decide you are unethical and not give you or anyone else from your firm business in the future.

- What are the implications for *other* stakeholders (e.g., individuals, organizations, and communities) besides those noted in Dimensions 1 and 2? The next thing you need to do is consider the likely or potential consequences for additional key stakeholders. Again, if you provide the tickets, then the customer may expect such exchanges not only from you and your colleagues in the future but also your competitors. You then earn the (bad) reputation in the market as the one who "bought business," didn't play fair, and caused grief for everyone.

- Will your solution work in an ethical manner? Make a final assessment of whether your chosen solution will reduce or eliminate the causes determined in Dimension 2 and if this then will remedy the ethical problem defined in Dimension 1. If not, then repeat and refine the dimensions.

As a reminder, the remainder of the book is organized into four sections. Section 1 is intended to help you build a business ethics foundation, introducing key concepts (e.g., social responsibility, sustainability, and employee rights), and developing a common language. Sections 2, 3, and 4 correspond to the individual, organizational, and societal- or global-level influences on business ethics, respectively. Arranging the book according to levels assists you in organizing and applying your knowledge as you learn it. The rationale is that individuals work in organizations, and organizations operate in a larger global society. As such, your business ethics learning can be thought of as a building process. First, a foundation is established (Section 1), next the individual is added, then the organization, and finally, the global society. These interdependent elements must be considered collectively to understand and effectively navigate the many business ethics challenges you will encounter in your career.

<div style="text-align:center">**CHAPTER SUMMARY**</div>

To conclude the chapter, reflect on what you learned. The intent was to get you off to a fast start by introducing some key concepts in your study and practice of business ethics, along with making the case for why ethical conduct is critical for businesses, you, and your career.

**Among the key takeaways in this chapter are the following:**

1. Many situations are clearly right or wrong with clear right and wrong choices, but ethical dilemmas have multiple difficult or unclear alternatives, which make dilemmas some of the most challenging ethical situations you will be confronted with in your career. It is essential to understand the vast majority of unethical conduct is not illegal, which means throughout your career, rarely will the legal system be a remedy to unethical conduct at

work. Most ethical challenges involve conflicts between various stakeholders and their respective expectations.

2. Changes in the workplace have numerous important implications for business ethics and your career, such as how work will get done, by whom, and where. You will need to navigate these factors to determine what is meaningful work for you and what responsibility your employers may have in providing such opportunities.

3. Your ethical conduct is invaluable to your job and career success for many reasons, and one of the most critical is that it influences your trustworthiness. Ethical conduct is essential for building trust, and unethical conduct is one of the surest ways of damaging trust, your reputation, and opportunities. Both domestically and internationally, business is suffering a crisis of trust, as people's reported levels of trust in people doing various jobs and many institutions continue to be low. This means that individuals (e.g., you) may need to overcome low levels of trust customers and others may have for your employer and companies in your industry.

4. Ethical decision making has a long history based in philosophy and on the following common perspectives—teleology, utilitarianism, egoism, deontology, universalism, and virtue. These perspectives focus on outcomes, rules or norms, and traits of the individual independent of the context, respectively. All of these perspectives contrast with ethical relativism, which is based on the premise that matters of right and wrong are dependent on the situation.

5. The 3-Dimensional Problem Solving for Ethics approach is a valuable and practical tool to use when solving ethical challenges in the workplace. The dimensions are Dimension 1—define the ethical issue, Dimension 2—determine the potential causes of the ethical challenge, and Dimension 3—describe potential solutions and consequences.

## FOR DISCUSSION

1. Describe a personal experience in which someone violated competence-based trust. How did you feel? What effect did it have on your relationship going forward?

2. Describe a personal experience in which someone violated integrity-based trust. How did you feel? What effect did it have on your relationship going forward?

3. Describe *two* ethical dilemmas you have experienced as a student? If relevant, which conflicting values were involved in each? Looking back, would you have done anything differently given the chance? Explain.

4. Why do you think that thousands of employees at large companies (e.g., Enron and Arthur Andersen) engage in unethical conduct on a daily basis, yet don't think it is unethical? What would you be inclined to do if you found yourself in such a situation?

5. Assume you worked for Arthur Andersen as a consultant on the Enron account during this period and now you are interviewing for a job. The interviewer notices this part of your history and asks you, "I see you worked at Arthur Andersen, did you work on the Enron account?" How would you respond?

| KEY TERMS | |
| --- | --- |
| Bribery | Primary stakeholders |
| Categorical imperative (CI) | Problems |
| Competence-based trust | Relativism |
| Deontologists | Secondary stakeholders |
| Consequentialism/Teleologic ethics | Stakeholder approach |
| Egoists | Stakeholders |
| Ethical dilemmas | Universalism |
| Golden Rule | Utilitarianism |
| Hybrid work | Virtue ethics |
| Integrity-based trust | Virtues |
| Meaningful work | Work that is a calling |
| Moral humility | |

## CHAPTER ENDING CASE: LIFE OR DEATH, YOU DECIDE

During normal times, many clinicians in the developed world simply treat patients on a first-come-first-serve basis, and this works well for both parties when resources meet patient demand. This, however, is not always the case, and few if any ethical dilemmas are more difficult than those faced by medical professionals who must ration care because patient needs outstrip the resources available to treat them.

Some clinicians are confronted with rationing routinely, such as transplant surgeons who have over 6000 patients die each year (nearly 17 per day) in the United States awaiting donor organs that either go to another patient or aren't available in the first place.[67] The Centers for Disease Control and Prevention (CDC) also rations the use of various medications, as it did in the fall of 2023 with vaccinations for the pulmonary infection RSV. A shortage required the agency to recommend providing the medication only to infants at risk due to other health conditions rather than all infants.[68] As another example, supply shortages of Adderall for treating ADHD required rationing. Some patients reduced and/or skipped doses while waiting for pharmacies to replenish supplies and fill prescriptions.[69]

Even though common, rationing care conflicts with the Hippocratic Oath and provides a fundamental conflict for physicians. The oath, taken by virtually 100% of U.S. medical school graduates, sets a universal care standard and requires physicians to apply all measures required to appropriately treat a patient and view all patients equally while not playing God.[70]

Despite such standards, crisis situations—on the battlefield or mass casualties due to accidents or natural disasters—also require doctors to triage patients and treat them not simply in terms of severity of injuries and needs but also the likelihood of survival.

The coronavirus pandemic was the direst medical crisis in modern history and made rationing medical resources necessary and frequent in many places where it was otherwise rare. Northern Italy, for instance, was hit especially hard, overwhelming all medical resources and requiring physicians to deny treatment based on age. One doctor stated the situation very

plainly: "There is no way to find an exception . . . We have to decide who must die and whom we shall keep alive."[71]

This problem for clinicians is further complicated by the fact that no two patients are the same, their conditions can and do deteriorate rapidly, and multiple patients are being treated simultaneously, not to mention the enormous stress experienced by everyone involved. In such circumstances, it is difficult for any single doctor to ensure their own decisions are consistent, which means it is significantly more difficult to ensure consistency for a hospital's entire medical staff.

To deal with such extreme situations, such as a crushing pandemic, the American Medical Association's Code of Ethics includes "crisis standards of care," which allows doctors to make treatment decisions based on serving the greatest good for the greatest number rather than maximizing the benefit to any individual patient.[72]

Hospitals, in Italy and elsewhere, did and do try to help by providing criteria to help guide such decisions. Among the goals of such guidelines are to facilitate appropriate and consistent care by alleviating the need for doctors to make such difficult decisions on the fly, at the bedside, all day, and day after day.

Some of the criteria suggested include the following:

1. Who has the greatest chance of survival?

2. If survival chances are more or less equal, then treat the patient with the greatest long-term benefit. Younger people, for instance, have more of their lives ahead of them and potentially more to contribute to society.

3. Another criterion to consider is a given patient's impact on treating others. This means that medical workers and other first responders would be treated if all other factors were equal.[73] To clarify, these are intended simply as guidelines or factors to consider rather than a protocol etched in stone. Moreover, true cultural differences exist. Americans, for instance, are not as likely to accept rationing of any sort, especially when a loved one is critically ill, whereas Europeans some say would be more amenable.[74]
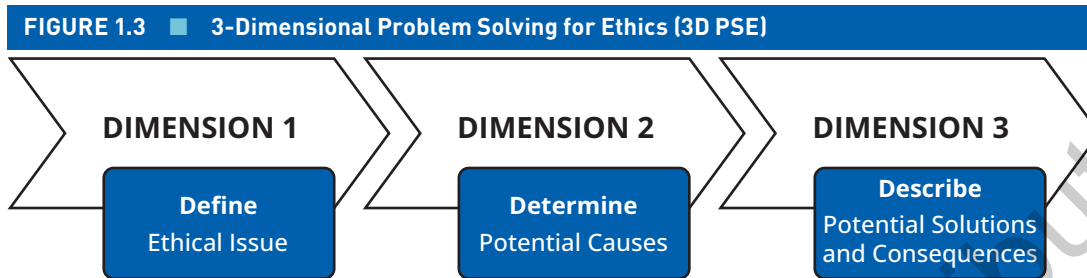
Now let's see what you would do.

Consider a scenario involving three gravely ill patients: (1) a 14-year-old boy with Type-1 diabetes, (2) a 27-year-old mother, and (3) an 80-year-old grandfather. Also *assume you're their treating physician* and suspect there is a high probability each will die without a ventilator—but you have only one.[75]

### For Discussion

1. Which patient do you give the ventilator? Answer this question before moving to #2.

2. On what basis did you make your decision? Explain.

3. Which of the common ethical decision-making perspectives best describes your choice? Explain.

4. Describe any contextual factors that influenced your choice.

5. Identify the relevant stakeholders in your choice and explain how each potentially affected your decision and/or how each would be affected by your decision.

| APPLY 3-DIMENSIONAL PROBLEM SOLVING FOR ETHICS (3D PSE) |
| --- |

| FIGURE 1.3 ■ 3-Dimensional Problem Solving for Ethics (3D PSE) |
| --- |



**DIMENSION 1**

**Define** Ethical Issue

**DIMENSION 2**

**Determine** Potential Causes

**DIMENSION 3**

**Describe** Potential Solutions and Consequences

You can apply the 3-Dimensional Problem Solving for Ethics from multiple perspectives, such as that of a treating physician, hospital administrator, or a gravely ill patient's spouse. However, let's try it *from the perspective of a physician that is treating all three patients* in a hospital that is overwhelmed by the pandemic.

### Dimension 1: Define the Ethical Challenge

   a. **Gap**. What is the gap in this case, from the perspective of the treating physician? What do they *have* and what do they *want*? (Describe in one or two sentences.) From the doctor's point of view, what is the current situation with the patient, and how do you think you would want it to be?

   b. **Why? Why? Why? (Why X 3)**. To help test and refine the gap/problem, ask: Why is the situation a problem, from the treating physician's perspective? Ask and answer the same question again—why is it a problem?—two more times to refine your answer. Consider, for instance, what difficulties or undesirable behaviors and outcomes happen as a result of the problem defined? (Note: You will likely need to revise the gap/problem in 1a as a result of asking these questions.)

   c. **Stakeholders**. Who are the key stakeholders relevant to the defined problem? Please list and explain how each affect or is affected by the problem you defined in "a." Then, label each as primary or secondary.

### Dimension 2: Determine the Causes

   a. **Individual Characteristics That Cause the Defined Problem**. Given the problem you defined in Dimension 1a, how do characteristics of the doctor influence the problem, such as ethical decision-making approach (Chapter 1), level of social responsibility (Chapter 2), work values (Chapters 2 and 4), moral development, moral disengagement, or ethical blind spots (Chapter 3), and perhaps biases (Chapter 4)?

   b. **Contextual Factors That Cause the Defined Problem**. Are there particular values, policies, practices, or norms that caused the problem (e.g., organizational culture, Chapters 8 and 10)? These may be for the hospital in which the doctor works or norms of the profession, industry, or the country.

### Dimension 3: Describe Your Potential Solutions and the Intended and Unintended Consequences for Stakeholders

Make the business case by answering the following questions:

a. *What* do you recommend, and *how* will you implement it? Describe with reasonable detail your action plan. (Note: This is where your knowledge and skills are demonstrated.)

b. *Why* do it this way? Consider, for instance, does this reflect a particular ethical decision-making approach (e.g., egoism, utilitarianism, universalism, relativism, or another)? Explain.
If your responses to these questions are unsatisfactory, then go back to Dimension 1 and repeat the process. If, however, you are comfortable and confident in your problem-solving efforts thus far, then ensure you achieve the desired outcomes and avoid any unintended consequences.

Test and refine your recommendations:

a. What is the *desired and likely effect in the short and long term* for the key stakeholders involved in the problem and causes (Dimensions 1 and 2)?

b. What *potential unintended consequences* may occur with your proposed solution?

c. If any, what are the *implications for **other** stakeholders* (e.g., individuals, organizations, and communities), besides those noted in Dimensions 1 and 2?

d. Will your solution work? Make a final assessment of whether your chosen solution will reduce or eliminate the causes determined in Dimension 2 and if this will then remedy the ethical problem defined in Dimension 1. If not, then repeat and refine the dimensions.

Bill Ackman and Marc Rowan, both billionaire hedge fund managers and major donors to Harvard and Wharton, respectively asserted tremendous public pressure on the leadership of those schools. They were unhappy with and wanted to change how the leadership of both universities handled issues related to Jewish students in light of the Palestinian-Israel conflict.

Sylvain Gaboury/Contributor via Getty Images

Vernon Yuen/NurPhoto via AP

# 2 LAYING A FOUNDATION: MORALS, SOCIAL RESPONSIBILITY, GOVERNANCE, STAKEHOLDERS, AND SUSTAINABILITY

## LEARNING OBJECTIVES

After reading this chapter you will be able to

**2.1**    Differentiate morals, values, and norms, and explain how they relate to business ethics

**2.2**    Explain what it means to be a socially responsible organization and individual

**2.3**    Summarize how corporate governance and stakeholder activism influence business ethics

**2.4**    Describe what it means to be sustainable

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**What's Your Position?**

### SPEAK UP, OR WE WILL!

In the fall of 2023, multiple extremely wealthy donors to the University of Pennsylvania and its Wharton School of Business threatened to halt their giving. Going a step further, one of these donors—Marc Rowan (billionaire CEO of hedge fund Apollo Global Management), who is also on Wharton's advisory board—called for the resignation of the University's president (Elizabeth Magill) and the chair of its board of trustees (Scott Bok).[1]

### The Source of Outrage

Donor outrage was tied to what they viewed as the University's inappropriate actions against anti-Semitism. Specifically, the University hosted a Palestinian literature festival with some number of speakers accused of reflecting anti-Semitic views in their work. The alumni spoke out, requesting that President Magill cancel the event, but she did not, citing the institution's desire to protect freedom of speech.[2]

Alumni fury was intensified just weeks later when they claimed the University did not speak out sooner and more strongly against Hamas and its attacks on Israel. The essence of the complaints were captured in a letter Rowan wrote: "Words of hate and violence must be met with clear, reasoned condemnation, rooted in morality from those in positions of authority . . . The academic, moral and objective truth of our elite institution was traded for a poorly organized pursuit of social justice and politically correct speech."[3]

And that's not all. Thousands of alumni accused the University of unequally protecting free speech and going so far as to protect dangerous ideas. One alumnus argued that the school should respond to anti-Semitic views in the same way it would anti-Black racism or anti-LGBTQ sentiments.[4]

### What Do Universities Say?

Many universities have historically avoided explicitly taking sides or even commenting on hot-button political or social issues. However, in recent years, expectations have grown for leaders across industries, including higher education, to have and take a position. Despite these expectations, many university leaders continue to argue that institutions of higher education should provide time and space for all viewpoints, which is what happened at U. Penn. But this position is difficult to defend when the same leaders have weighed in and

have indeed taken sides when forbidding particular views considered offensive by many or most, such as blatant racism.

The economic implications are also very real, even—if not especially—for schools with large endowments, such as Harvard, Yale, and Wharton. Those dollars come from wealthy and motivated donors and offending them can prove costly. This situation is testing the ethical resolve for donors and university leaders alike.

## For Discussion

1. Assume you are the U. Penn president and subjected to the TV Test and the reporter asks: "How do you defend your choice to allow the Palestinian literature festival, that includes participants who in the past have expressed anti-Semitic views? Explain your response.

2. Same as #1, but now assume in the TV Test the reporter asks you: "Given your willingness to allow groups with those views, then wouldn't you also sponsor or allow a white nationalist or other blatantly racist organization to have a festival on campus?" Would you allow it? Defend your decision.

3. Which ethical decision-making approaches are reflected in your answers to #1 and #2? Explain.

Chapter 2 is intended to complement Chapter 1 and introduce some key concepts related to the ethical conduct of individuals and organizations. The purpose of doing this is to equip you with some common language and foundational knowledge, as well as give you a sense of how individuals and organizations influence each other's ethical conduct.

We begin with an overview of some fundamental concepts—morals, values, and norms—which powerfully influence the behavior of individuals, groups, organizations, and entire regions and countries. Then, we will answer the question: What does it mean to be socially responsible? Historically, academics and practitioners think and talk about social responsibility related to only organizations, but we also apply social responsibility to individuals.

Two other important influences on business ethics are corporate governance and stakeholder activism. As you'll learn, boards of directors typically have ultimate responsibility for the conduct of organizations and their leaders and thus have considerable importance and influence on business ethics. Similarly, stakeholders help determine or even pressure ethical conduct in a host of ways. We close the chapter with a discussion of sustainability, what it means, and the critical role of time when considering sustainable policies, practices, and behaviors, including how to apply the concept to your career.

Let's dive in.

## WHAT ARE MORALS, VALUES, AND NORMS, AND HOW DO THEY RELATE TO BUSINESS ETHICS?

| **LO 2.1** | Differentiate morals, values, and norms, and explain how they relate to business ethics. |
| --- | --- |

Just like all of the various disciplines you study in business school—accounting, finance, marketing, human resource management, business analytics, and others—business ethics has

a terminology that enables people to communicate precisely and apply knowledge effectively. Communication and application of your knowledge are essential for your personal success in school and at work. That said, it is worth acknowledging that several key terms in business ethics are related; that is, many are embedded in or in part determined by others. This is another reason why it is especially important to gain clarity at the beginning.

### Embedded Means Related, but Not the Same

Before defining other terms and explaining how they are related, it helps to describe and illustrate what is meant by *embedded*. Figure 2.1 shows three concentric circles—business ethics norms are embedded in or influenced by business values, and both are embedded in and influenced by societal morals. Configured in this way, you can see these concepts in terms of levels—morals the highest, values next, and norms last. This mirrors the level of abstraction or precision, such that morals are *relatively* more abstract beliefs held among people, whereas values are *relatively* more varied, and norms most variable. The key is relative. With this in mind, let's explore each in more detail.

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**FIGURE 2.1 ■ The Relationship Between Morals, Values, and Ethics**



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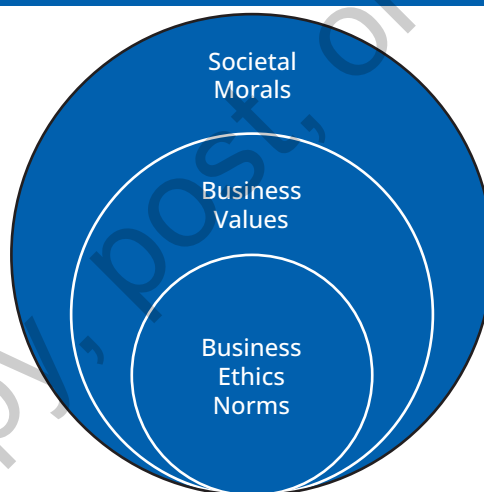
### What Are Morals and Business Values, and How Do They Relate to Business Ethics?

Applying this notion of embeddedness, let's start with the most fundamental element—morals. **Societal morals** describe what a national culture, religion, or philosophical belief system considers right and wrong.[5] It therefore helps to think of morals as ethics at a highest level, such as the value of life, liberty, and justice in the United States and other Western cultures. Religion also influences morals. Christianity forbids stealing and Hinduism advocates pleasure and prosperity. Morals are widely shared among people, operate at a higher level, and help shape business values and ethics.

**Business values** are shared and enduring expectations about what is important, and these in turn guide policies, practices, and behaviors of individuals and organizations.[6] Accordingly, values are brought to life, made real or manifest, in the actual behaviors, policies, and practices of individuals and organizations or what is referred to as business norms.

For our purposes, we discuss **business ethics norms**, which are the shared views of what is right and wrong in terms of behaviors, policies, and practices in a given context. They are determined by the morals of society and the values of a particular community, group, or organization (e.g., employer, industry, and country).[7]

### Business Ethics Reflect Morals, Values, and Norms

Putting this all together, **business ethics** is the study of right and wrong behavior between individuals and organizations, and this distinction is dependent on the morals of society and the values and norms within a specific work context.[8] Although you and everyone else certainly has their individual sense of ethics, these are really the result of the shared views of groups about what is appropriate. As such, your ethics may indeed differ from those of a particular group, such as a project team at school or a group of peers at work, but your ethics align with some other group.

You can easily see how values have implications for ethical behavior. For instance, your employer may value competitiveness and reinforce this by providing large bonuses to top performers through its performance management and reward policies and practices. However, if you "steal" a customer from one of your peers and/or sell the customer products they do not need, then it is likely your conduct is considered unethical. You will learn much more about values (Chapter 4) and their implications for ethics throughout this book, such as the fundamental role of values in organizational culture (Chapter 8).

Before moving on, it is important to note that a critical attribute common to morals, business values, and ethics norms is the fact *they are shared*. It is the shared nature that gives them their power to influence the ethical conduct of individuals, organizations, industries, countries, and larger society. The greater the degree of sharing or agreement, the greater the power to influence ethical conduct.

Now that you have a basic understanding of some fundamental concepts and how they are related to each other, let's move on to the concept of social responsibility.
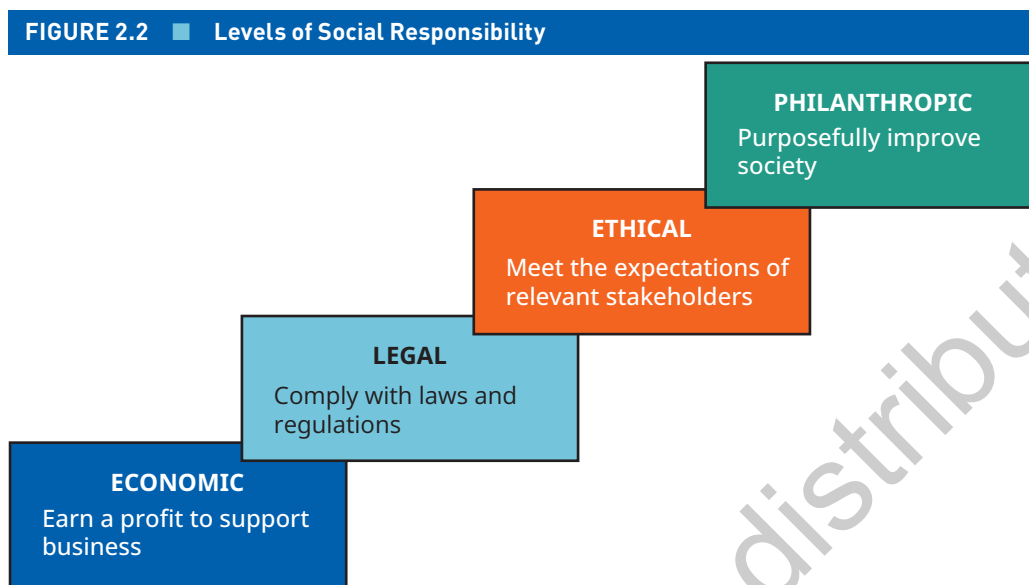
## WHAT DOES IT MEAN TO BE A SOCIALLY RESPONSIBLE ORGANIZATION AND INDIVIDUAL?

| | |
|---|---|
| **LO 2.2** | Explain what it means to be a socially responsible organization and individual. |

**Social responsibility (SR)** is an individual's or organization's obligation to maximize positive and minimize negative impacts on stakeholders. Defining this concept in terms of both individuals and organizations emphasizes that society now expects both to be socially responsible. In other words, you undoubtedly expect individuals and organizations to follow the law, just as you would value both engaging in philanthropy. What is considered socially responsible for individuals and organizations is in large part determined by the morals and business values and ethics norms of the particular context.[9]

### Corporate Social Responsibility

**Corporate social responsibility** (CSR) is social responsibility at the organizational level and is commonly described in terms of the multiple levels of responsibilities shown in Figure 2.2.

**FIGURE 2.2   ■   Levels of Social Responsibility**

**PHILANTHROPIC**
Purposefully improve society

**ETHICAL**
Meet the expectations of relevant stakeholders

**LEGAL**
Comply with laws and regulations

**ECONOMIC**
Earn a profit to support business

Adapted from A. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons*, July–August, 1991: 41

Most organizations need to make money to survive, therefore making a sufficient profit from their products and/or services is the most basic and **economic responsibility**. Quite simply, if a business doesn't achieve sufficient profit, then it ceases to exist and business ethics are no longer relevant. Issues of business ethics, therefore, concern how profits are made, the impact of making them, and perhaps how much profit and for whom.

Economic responsibility needs to be achieved with **legal responsibility** or according to the laws where you work. **Ethical responsibilitiy** is reflected in the awareness and consideration of various stakeholder expectations in our conduct. In other words, which stakeholder's expectations do you serve?

**Philanthropic responsibility** is not required for the survival of the business but contributes to the well-being and betterment of individuals, organizations, and society. The Ethics in Action box provides an excellent example of how organizational and individual social responsibility can be and often are related. Environmental and social justice issues are common examples of philanthropic responsibility and are studied in Chapters 12 and 13.

## Individual Social Responsibility

Although business ethics books do not typically apply social responsibility to individuals, it is valuable to show you how to fulfill these same responsibilities as individuals. Here's how.

*Economic responsibility* is your need to earn enough income to support your lifestyle—pay your rent or mortgage, car payment, food, student loans, other basic needs, and, of course, money for clothes, entertainment, and perhaps health insurance. Many people like you, of course, want to do more than meet their basic needs, and some even want a luxurious lifestyle and cool toys. This is fine, but the issue becomes how you pursue your own economic interests, beginning with the legality of your actions. Plainly and simply, earn your money legally! To meet *legal responsibility*, don't break the law or violate rules and regulations when doing your job and earning money. The Ethics in Action box illustrates how the views of an individual's sense of responsibility can translate into his company's responsibility.

## ETHICS IN ACTION

### Dick's Doesn't Carry Guns

More than 357,000. That is the number of U.S. students who have experienced gun violence at school since 1999 (the year of the infamous Columbine High School event).[10] Among these was the 2018 tragedy at Stoneman Douglas High School in Parkland, Florida, where 17 students were killed. This particular event, on top of the long trend of increased gun violence in schools, motivated Ed Stack to act. Mr. Stack is the former CEO and current executive chairman of Dick's Sporting Goods (it also owns *Field & Stream* and Golf Galaxy), which is the largest sporting goods store in America.[11]

### The Proverbial Straw

Like the students of Stoneman Douglas, Stack also felt "enough is enough" and two weeks after the shooting, Dick's stopped selling guns to people under 21, along with removing assault rifles and high-capacity magazines from its stores.[12] This, however, is just part of the history. The company briefly stopped selling assault rifles back in 2012, in response to the Sandy Hook shooting, but customer complaints caused the company to relent and eventually sell them again.[13] Since 2018, however, the company and current CEO, Lauren Hobart, have persisted and since removed the entire hunting department from nearly 600 stores.[14]

When asked to explain his actions, Stack said: "If you see a problem and you have an expertise on the problem, and you have a sense of the solution, you should stand up and say something and that's what we did."[15]

### Costs and Resistance

These actions had costs. After one year with the limits in place, store sales declined 3.1% ($250 million), approximately the amount of lost gun sales in the same period. After aligning himself with gun control activists, others lashed back, such as other gun sellers, gun buyers, and employees of gun manufacturers.[16] Some Dick's employees objected too—62 resigned explicitly for this reason (at the time, Dick's employed nearly 45,000). And Mr. Stack received personal threats.

### Skeptics

Interest in hunting, and thus sales of guns and related products, has been on the decline for many years, which has led some to claim Dick's was and is just following industry trends and market realities rather than rallying for social change.[17] And as noted, the company has largely eliminated the hunting category from its stores.[18]

Stack, however, has been undaunted. In March of 2020, he announced plans to accelerate the removal of the remaining guns from over 400 additional stores. The company's stock surged 13%.[19] And his successor, CEO Hobart, has continued the efforts.

### For Discussion

(Note: Although this case happens within the context of a much larger gun control debate in America, our focus here is on business ethics and thus the behaviors, policies, and practices of people engaged in business. Put differently, this is not intended to spur discussion on the Second Amendment but instead on the concepts presented in this chapter as they relate to the decisions by the then CEO of Dick's Sporting Goods and the resulting impact and reactions of various stakeholders.)

1. Which morals, business values, and business ethics norms are evident in this case? List and describe specific examples for each.
2. Describe the level of social responsibility demonstrated by Ed Stack.

3. What ethical decision-making perspective did Ed Stack seem to use (recall from Chapter 1)? Explain.
4. Which stakeholders do you think Ed Stack considered most in his decision? Which of these was primary and which secondary?
5. Describe the implications of Stack's actions on Dick's employees. Note: Not all employees are affected or responded the same.

*Ethical responsibility* often concerns how you meet your economic responsibilities and needs. Do you cheat, steal, undermine others? Are you a bully? These are problematic and easy to understand, but what is more challenging is identifying all of the relevant stakeholders, both primary and secondary for a given situation, and then actually understanding and attempting to meet their expectations related to ethical conduct.

Finally, do you volunteer your time or donate money to a particular cause or organization? These are obvious and common forms of *philanthropy*. For some people, these actions generate more satisfaction and passion than their jobs. Although individual-level giving is indeed valuable, many organizations have this as their mission, such as the Gates Foundation, which launched in 2000 and focuses on improving healthcare and reducing poverty around the globe. It is the full-time focus of both Melinda and Bill, who stepped down from the Microsoft board of directors in 2020.[20] The foundation has an open access policy, wherein any data it collects is shared with others who may benefit. The foundation has given over $71 billion[21] and helped revolutionize philanthropy into a more contemporary form—**impact philanthropy**, which requires strategic partnerships, action planning, measurable outcomes, and accountability.[22] This differs from giving for giving's sake or simply writing a check.

A particularly interesting example is Pencils of Promise, a "for purpose" (rather than a nonprofit) charity that adopted a business-oriented approach to giving similar to the Gates'. One hundred percent of the money donated is spent on those it serves, and it also measures the return on investment (ROI) of every dollar spent to ensure appropriate allocation and execution. The mission has helped educate children in developing countries, and to this end, builds and operates schools (more than 580 since 2008).[23] As for pencils and pens, the organization has distributed thousands to children in over 50 countries.[24]

Philanthropic giving has evolved; now instead of simply giving money, donors apply business principles and processes, such as creating strategic plans and measuring results. The Bill & Melinda Gates Foundation epitomizes this approach.

Joel Rogers via Getty Images

The key to meaningful philanthropy, for you personally, is to give serious consideration to whom and how to invest your resources of time, money, expertise. What you've learned thus far in this book should help. Start with an individual's or organization's needs. Then, assess them to see if who they are and what they do is consistent with your own values and that they also follow the law and conduct themselves in ethical ways. Perhaps they too are philanthropic and worthy of your donation. Charity Navigator, along with others, is a helpful resource to help vet charitable organizations.

But it is worth asking at this point, why should you care about SR? For one, fulfilling or aligning with the expectations of various stakeholders earns their support and associated benefits, such as more business for your employer and more job opportunities for you. Moreover, research shows that companies that engage in **strategic corporate social responsibility (CSR)**—activities

that contribute to the improvement of society *and* are related to the organization's main or core business—have been associated with a greater than 100% stock price increase since the financial crisis of 2007–2009.[25]

Salesforce.com, a leading cloud software company, has a long history of strategic philanthropy, which they call their 1-1-1 model—give away 1% of the company's stock, 1% of its product, and 1% of employees' time. Over the years, this has amounted to more than $650 million in grants, 54,000 schools and nonprofits using their technology, and 8.3 million employee hours. Although not all, much of this giving is related to technology and areas adjacent to the company's businesses.[26]

With the various forms or levels of social responsibility in mind, it is time to learn about important influences with which those organization engage, including how and when.

## HOW DO CORPORATE GOVERNANCE AND STAKEHOLDER ACTIVISM INFLUENCE BUSINESS ETHICS?

| **LO 2.3** | Summarize how corporate governance and stakeholder activism influence business ethics. |
|---|---|

So far in this chapter, you've learned how morals, values, and business ethics norms are related, and now you also know something about what it means to be a socially responsible individual and organization. To further develop your business ethics knowledge and skills, we next explore boards of directors and their role in overseeing the conduct of organizations and their employees.

### Corporate Governance

**Corporate governance** describes the processes by which organizations ensure they appropriately consider stakeholder interests. Governance responsibilities are typically shared by the top management team and **boards of directors**, which are collections of individuals who have ultimate responsibility for an organization's policies, practices, and performance.[27] They are required to act in the interests of the organization and oversee its resources (e.g., human, intellectual, physical, and financial) and many important elements of organizational functions, such as the following:

- Executive compensation

- Executive succession

- Compliance with regulations

- Strategy

- Financial performance (profitability, share price, market share)

For many years, business has been criticized for an excessively narrow focus on shareholders, referred to as the **shareholder model of governance**, and this blame is appropriately shared by directors. Directors and their governance actions are primarily intended to ensure that the top management team's actions boost the stock price for shareholders (or value to the owners

of private companies). Many scandals in the past decades are, at least in part, attributed to a shareholder model of governance. Laws are a common way society has responded to some of the most major scandals, and they often attempt to hold board members personally accountable for the misconduct of the organizations they oversee and the executives who manage them. Some of these laws and regulations are covered in Chapter 9.

In contrast, boards of directors who apply a **stakeholder model of governance** consider the interests of a broad range of stakeholders both inside and outside the company. A fundamental challenge for directors using this model is to determine which stakeholders are most important at a given point in time and thus receive the attention of leadership if not also more of the organization's resources.

Table 2.1 lists numerous companies recognized for giving back and illustrate a broad stakeholder approach. Besides learning about how the companies make their impact, consider if you might like to work for any of them. They could be potential job targets for you or at least give you some practices to look for in companies with whom you interview.

| TABLE 2.1 ■ Companies That Care About Stakeholders[28] | | |
|---|---|---|
| **Organization** | **Line of Business** | **Why Named to List/Qualifications** |
| Cisco | Network, cloud management, and other technology solutions | 80% of workforce participates in Community Impact Program. In FY2023, 70,000 employees generated $27 million matching donations and gifts. Each new employee is given $15 in their onboarding session to donate to a charity of their choice. The idea: that a sense of caring is embedded in the company's DNA. |
| American Express | Global integrated payment company | Provided a $250,000 grant to The Trevor Project, a nonprofit organization that provides crisis services and counseling to LGBTQ+ youth. AMEX has also given over $1 million in support of humanitarian efforts to charities like UNICEF and the Red Cross. |
| Target | Retail | Through its Dream to Be program, more than 340,000 full- and part-time employees can receive education assistance, such as select courses for high school completion, college prep, English language learning, and associate and undergraduate degrees. |
| PricewaterhouseCoopers (PwC) | Audit, tax, and consulting | Over $2.4 billion has been invested to improve employees' quality of life, such as parental leave, hybrid work, and movement within the company to different teams and projects. PwC also greatly expanded mental health benefits. |
| Comcast NBCUniversal | Global media and technology | The Project Up initiative seeks to advance digital literacy and equity among young adults with disabilities in employment programs. |

Stakeholder activism is another way in which the ethical policies, practices, and conduct of organizations is shaped. This is discussed next.

## Stakeholder Activism

**Stakeholder activism** describes (in)actions to influence the leaders of an organization to change its strategies, policies, and practices. Historically, the most common and well-known form is shareholder activism, wherein investors attempt to influence a company's leadership with actual or real threats to buy and sell its stock. Activist investors commonly own a significant percentage of the total stock of a company, and this gives them particular

rights, such as seats on the boards of directors, who you just learned oversee and help determine an organization's actions. Shareholder activists commonly seek to do one or more of the following:[29]

1. Corporate governance. Influence the organization's strategies, such as where to grow and how to grow.

2. Company mergers, acquisitions, and sales. Influence whether underperforming divisions are spun-off (sold), as doing this gives the activist an improved stock price in the original company, as well as stock in the new or spun-off company. They may also attempt to persuade the company to acquire a competitor.

3. Boost efficiency and profitability. Shareholder activists first, if not foremost or only, are interested in making more money. They, therefore, will typically encourage cost-cutting and focus on products and services with higher margins.

4. Spend the company's money. Some companies generate and hold piles of cash. Apple, for instance, had approximately $162 billion on its balance sheet near the end of 2023![30] Activist investors often seek to get companies to spend this money on acquisitions to boost future performance or to pay it to shareholders in the form of dividends.

You may have heard of Carl Icahn or Bill Ackman (noted in the What's Your Position), two legendary shareholder activists. Among Icahn's investment activities are Take-Two Interactive (video games), Motorola, and in recent years, Lyft, Xerox, Pep Boys, Hertz,[31] and Illumina (a biotech company).[32] Bill Ackman has established himself as someone company leaders, boards, and investors should listen to. He made billions betting against financial institutions in the financial crisis, but he also lost more than $1 billion in his campaign to tear down Herbalife, claiming it is a pyramid scheme. Herbalife's stock recovered, and Ackman has since made piles of other money as an activist investor in Chipotle Mexican Grill and Starbucks, among others.[33]

Boycotts also are a part of American history, as they were part of the impetus for the Revolutionary War. Colonists boycotted British tea in efforts to change what they perceived as unfair taxation (without representation). The colonists' efforts escalated when they dumped tea into the Boston Harbor.[34] Now, however, boycotts are both created and amplified using social media and are not limited to customers' dissatisfaction with a change in a product. The follow Ethics in Action box illustrates how political operatives leveraged otherwise satisfied customers to punish companies for supporting particular social movements.

## ETHICS IN ACTION
### BOYCOTT AS A POLITICAL TOOL

Prior to early 2023, if you would have surveyed drinkers of Bud Light and shoppers at Target stores, chances are most would be highly satisfied with their respective products. Afterall, Bud Light had long been the top-selling beer in America and Target one of the largest retailers. Both companies showed their support for particular social changes important to various stakeholders, such as a proportion of employees, investors, and customers. The beer

company partnered with transgender influencer Dylan Mulvaney, and the retailer promoted LGBTQ Pride merchandise.[35]

Then, some politically oriented activists took issue and action against both companies for supporting these social movements. Media campaigns were amplified by social media efforts and involvement from political figures and celebrities. If you recall, musician Kid Rock created a video of himself shooting cases of Bud Light in protest, which was followed by a tsunami of similar videos from other musicians and customers.

The effect? Both companies responded. Bud Light's leadership stumbled in its media response, which sadly alienated some of the customers and other stakeholders the partnership was intended to support. Making matters worse, Bud Light's sales dropped substantially in the coming weeks and months. For instance, several months after the conflict, Bud Light sales were still down approximated 30%, leading one expert to conclude that these customers and sales are "lost forever."[36] For its part, Target removed and relocated some of the merchandise and displays, and its CEO later attributed part of the quarterly sales decline to customer backlash.[37]

## For Discussion

1. List the various stakeholders noted in the case. Then, label each as primary or secondary.
2. Assume you are CEO of AB InBev, the owner of Bud Light; describe how you would respond to the backlash against partnering with a transgender influencer.
3. Assume you are CEO of Target. Describe how you would respond to the backlash against your Pride merchandising and promotion.
4. As a student, identify something (a product, service, and/or company) you would boycott. Explain both the reason why and how you might do it.



Students have always been seen as more active than other groups. True or not, student activism is indeed common on a range of issues, some related to university education while others have social and political aims.

Sipa USA/Alamy Stock Photo

Employees also are considerably more assertive in their efforts to influence their employers in recent years. A survey by public relations firm Weber Shandwick revealed that nearly 40% of the employees who responded have spoken up either for or against "their employers' actions over a controversial issue that affects society."[38] The problem-solving case at the end of this chapter focuses on employee activism in the form of labor strikes, which along with other forms of employee activism have experienced a tremendous resurgence in the past few years.

Before moving on, it is important to note that you and students more generally can be and are powerful activists on a wide range of issues over time, such as desegregation in public schools, gun violence, Black Lives Matter, book bans, and reproductive rights.[39] Yale students, for instance, effectively motivated the University's administrators to change mental health policies for students. For many years, students who needed a period of leave to receive care were required to withdraw and then reapply to the University. Making it worse for students, withdrawing excludes them from campus and related spaces and forces them to quit any University job and forfeit their health insurance. And to top it off, readmission was not guaranteed.[40]

Students, however, prevailed. The University revised many of these policies, making it easier for students to get assistance, preserve relationships and benefits, and remain or reconnect with the University when they are ready.[41]

In the next section, you'll learn about the importance of considering the implications of conduct, policies, and practices over time and how the element of time is foundational to sustainable business ethics at all levels—individual, group and organizational, country, and societal.

## WHAT DOES IT MEAN TO BE SUSTAINABLE?

> **LO 2.4**        Describe what it means to be sustainable.

**Sustainability** is meeting current needs without compromising the ability of individuals and organizations to meet their future needs.[42] Again, sustainability is purposefully defined in terms of both individuals and organizations to reinforce the importance of personal and organizational responsibility. The other critical aspect of the definition is time, ensuring that actions today do not foreclose or limit opportunities tomorrow.

### Relationship Between Sustainability, Social Responsibility, and Business Ethics

Before going any further, it is helpful to explain that sustainability, social responsibility, and ethics are not synonymous. Consider ethics as an example. As you learned, ethics are contextual, meaning they depend on the norms or expectations of the people in a given situation, place, or organization. U.S. auto manufacturers moved a significant portion of their production to Mexico, motivated by lower labor costs (allowing for more hours worked and less pay) and softer environmental regulations (pollution).

This trend is a long and strong one, as evidenced by a nearly 36% overall growth in auto exports between 2022 and 2023, with Nissan up 117%, Volkswagen 86%, and GM 36%.[43] More generally, foreign auto production in Mexico has increased over 100% since 2011.[44] Mexico now manufacturers nearly 25% of all cars sold in the United States.[45]

One could argue that foreign automakers were ethical or even socially responsible because they complied with Mexican labor and environmental standards. However, it would be difficult to make the case that this conduct was sustainable, as it likely compromised the environment if not also worker well-being (long hours, little time off, and poor wages). This story is not just about the U.S. auto companies. Since 2011, Toyota and Honda have increased their Mexico production by 263% and 611%, respectively![46] The motives are the same and so too are the implications for sustainability.

An additional way to help you differentiate sustainability, business ethics, and social responsibility is to consider the effects of decisions, policies, and practices over time.



Manufacturing of most everything has been outsourced; a notable example is autos for companies around the world moving production to Mexico. This highlights multiple ethical challenges related to social responsibility and sustainability.

Danny Lehman via Getty Images

### Sustainability Is About Time

For a moment, put aside our discussion of business ethics, the environment, and social responsibility. If you think of sustainability apart from these, then it makes perfect sense to conclude that if something is sustainable, then it will be successful or effective over time. That is how you

should think about sustainability. To help, ask yourself the following questions when confronted with a decision or problem:

- If I do *this*, will it enable me to do the same thing as well or better in the future?
- Will my decision allow others (i.e., relevant stakeholders) to do the same or better in the future?

This same thinking applies to socially responsible individuals (you) and organizations (businesses and governments and their leaders). For instance, assume a food bank in your community only received donations one time; that is, each donor gave money only once. Most people would agree that each donation is indeed socially responsible, but it certainly is not sustainable. The foodbank either needs to find an endless number of unique donors (impossible) or get some number of donors to contribute regularly.

At an individual level, this same example applies. Assume you donated to a charity one time. Your donation is responsible but not a sustainable effort on your part if it is only once. Let's be clear, charities and many others, would appreciate a one-time donation versus no donation at all. But the point here is to consider impact over time.

## ETHICS IN ACTION
### YOU CAN COUNT ON OUR SUPPORT—TODAY, TOMORROW, ALWAYS

At the organizational level, Home Depot and Lowes provide excellent examples of social responsibility and sustainability. They are well known for providing extensive support for both employees and communities affected by hurricanes. They commonly provide continued paychecks for displaced workers whose stores are closed. They not only stock functioning stores with necessary supplies in advance of storms to help citizens guard against the destruction, but they also establish command centers to help coordinate relief and recovery afterward.[47] Moreover, these companies also send employees from other regions to help in the effort. These practices are clearly socially responsible on many levels, and they also are sustainable because both employees and citizens know that these companies will be there supporting them in their time of need.[48]

(a)                                    (b)



Lowe's and Home Depot, the biggest players in their industry, have done many things to assist employees and customers in areas devastated by major weather events.

imageBROKER.com GmbH & Co. KG/Alamy Stock Photo

imageBROKER.com GmbH & Co. KG/Alamy Stock Photo

**For Discussion**

1. Which forms of social responsibility are practiced by Home Depot and Lowes?
2. What is it that makes these practices sustainable?
3. Assume that Home Depot helped only one store, in one city, for one hurricane. Discuss the likely implications for the perceptions of social responsibility and then the sustainability of its hurricane protection and relief efforts.

## Sustainability and Your Career

Let's conclude the chapter by helping you apply sustainability to your career. But first, remember that applying the 3D Problem Solving for Ethics (3D PSE) approach has sustainability and social responsibility built-in, which means it is a valuable tool to assist you in your career. Be sure to apply it to the end of chapter cases and other exercises throughout the course to build this critical skill.

### Take Your Jobs Two at a Time

One extremely useful way to build sustainability into your career is your approach to selecting jobs.

First, think of yourself as a share of stock whose value changes over time. Your goal is to approach your job choices in terms of how they will boost your value in the job market. In other words, for any job you consider, think of how it will increase (or not) your value for the next job you want, either within or outside of the first organization. This is what is meant by taking jobs two at a time.

To elaborate, most often, you are simply looking for a job. You want or need a job, and you do the "best" you can with the available opportunities. Of course, there is nothing wrong with this approach—after all, you have to eat. The recommendation is to be more strategic in your job search and selection in order to increase the number and attractiveness of your opportunities over time (i.e., your career).

Many if not most times throughout your career you see a given job as a stepping-stone to another opportunity within the same company, such as a promotion. Other times, a given job is attractive because you believe it will provide you with skills and experience other employers will find attractive (opportunities in other companies) or those needed to start your own business. Whatever the case, in your mind, you often already think of two jobs at once—the one you're interviewing for and the future opportunities that job will help create. This is simply intended as encouragement to do this consciously in order to be more successful.

### Have a Clear Passion? Follow It. Otherwise Start With Sustainability

Fewer than half of all college graduates have a clear sense of what they will do after graduation, and research shows that only 27% take first jobs related to their majors.[49] But if you are one of these fortunate individuals with a clear path, great, take it! For the rest, you are encouraged to follow the checklist and steps in Table 2.2 to assist your job search efforts, all with the intention of helping your career be sustainable—fulfilling and successful over time. There is no magic in this, but this advice has benefited numerous students for over 20 years, and many have found it immensely helpful.

You hopefully are getting a sense of what is involved in business ethics, such as the benefits not only to organizations but also to you and your career. You should also have an increased

| TABLE 2.2 ■ Job Search and Sustainable Careers Checklist | | | |
|---|---|---|---|
| **Completed Y/N** | **Steps** | **Objective** | **Description** |
| | Step 1 | Determine your geographic preferences | Where do you most want to live, followed by a list of places you would live, and those you would not. Great job, undesirable location, less than ideal. Great location, less than desirable job might be more tolerable. |
| | Step 2 | Identify best places to work lists | You of course can use *Fortune Magazine's* annual list, as those companies nearly always have offices in multiple cities (and countries). Large metro area newspapers and other periodicals often generate similar list for companies in the area. |
| | Step 3 | Learn which industries are growing | Growth usually means future opportunities. I'm from southeast Michigan where the auto industry was the major employer for generations, but during my entire life, those companies and industry have been shrinking. This does not mean you should not pursue a job or career in the automotive industry. However, if you do not have an industry-specific passion or interest, then you are well served to look at industries that are growing. |
| | Step 4 | Look for jobs in these growing industries | The intention here is sustainability; finding a job, another job, and a career in a growing versus shrinking industry is more likely to present you with (attractive) opportunities over time. |
| | Step 5 | Healthcare? | If none of the preceding generates desirable options, consider the healthcare industry. Besides being one of the three largest in the United States (government and education are the other two), it contains jobs representing most every major and interest—marketing, operations, talent management, strategy, finance, and accounting. Moreover, until COVID-19, it was quite rare for the industry to shrink, which meant that historically it was more resistant to downturns in the economy than many others. |

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appreciation for the importance of considering a broad array of stakeholders and how they can be influenced by and, in turn, influence ethical conduct. Finally, you should now have a clearer and more precise understanding of what it means to be socially responsible and how considering the implications of behavior, policies, and practices over time is what it means to be sustainable.

## CHAPTER SUMMARY

**Among the key takeaways in this chapter are the following:**

1. Morals, values, and norms are fundamental elements of business ethics. Understanding the differences between these concepts is foundational to your understanding and successful application of business ethics knowledge and tools.

2. Social responsibility is fundamentally about maximizing positive while minimizing negative outcomes for stakeholders. Both individuals and organizations can be socially responsible.

3. Corporate social responsibility has four levels—economic, legal, ethical, and philanthropic. Knowledge of these levels can help you understand the motives underlying both individuals and organizations and identify potential employers who fit with your values as well as companies with whom you want to do business.

4.  Boards of directors are the central means for corporate governance, and they determine which stakeholders' interests are prioritized (e.g., shareholders or customers).

5.  Stakeholder activism occurs when a particular stakeholder group asserts influence over an organization to change its strategies, policies, and practices. Activism has increased from shareholders, employees, and customers in the past several years, resulting in numerous changes at both large and small companies.

6.  Sustainability is complex and has many applications. Fundamentally, it is about ensuring your or an organization's conduct today does not impede the opportunities of others in the future. Sustainability can also be applied to your career.

## FOR DISCUSSION

1.  List and explain, using specific examples, how two different values influence your conduct as a student.

2.  Identify two stakeholders you have as a student and the ethical expectations they have for you. Which level of individual social responsibility does this illustrate (see Figure 2.2)?

3.  What are two issues you feel would be worthy of your efforts as a student activist? Put differently, assume you are required to engage in student activism as a requirement of this course; what are two things you would choose to pursue and why?

4.  What is something you would boycott as a consumer and/or student? How? Why?

5.  What is a current behavior you have that you feel is clearly unsustainable? Why? How can you reduce or eliminate the negative impacts of this same behavior?

## KEY TERMS

| | |
|---|---|
| Boards of directors | Legal responsibility |
| Business ethics | Philanthropic responsibility; |
| Business ethics norms | Shareholder model of governance |
| Business values | Social responsibility (SR) |
| Corporate governance | Societal morals |
| Corporate social responsibility | Stakeholder activism |
| Economic responsibility | Stakeholder model of governance |
| Ethical responsibility | Strategic corporate social responsibility CSR |
| Impact philanthropy | Sustainability |

## CHAPTER ENDING CASE: EMPLOYEE ACTIONS GET RESULTS

If you paid any attention to the news in 2023, or if you noticed that new seasons for many of your favorite shows on streaming and linear TV did not appear, then you were aware of the large number of strikes by employees across industries. This form of employee activism, often facilitated by labor unions that represent various groups and industries, was so pronounced that some experts called 2023 the Year of the Strike—over 450,000 employees in 2023 (from 300+ companies), compared to 123,000 employees in 2022 and 37,000 in 2021 (see Table 2.3 for

examples). According to one report, more employees were involved in strikes in 2023 than at any time in the previous four decades![50]

| TABLE 2.3 ■ Examples of Organizations That Threatened or Actually Went on Strike | | |
|---|---|---|
| **Organization** | **Motives** | **#Employees or Customers Involved** |
| Hollywood writers | Compensation (pay and residuals), length of employment, size of staffs, and control of AI | 11, 000 employees of studios, streaming services, and production companies[51] |
| Screen Actors | Compensation and other issues | 150,000 actors |
| Kaiser Permanente (largest U.S. nonprofit healthcare organization) | Pay and staffing | 85,000 employees[52] |
| Portland school teachers | Salaries and class sizes | 4,000 teachers and 45,000 students[53] |
| California State University system faculty | Pay, workloads, inequities | 29,000 lecturers, librarians, and other employees[54] |
| Airline pilots (United, American, and Delta) | Pay and job security | 16,000 pilots[55] |

### Why Walk Out?

More money! This is the most obvious and most common reason. Employees' pay in many industries has lagged for an extended period of time, and this was before COVID. Since the pandemic, companies have on average recovered, and in some instances, exceeded pre-pandemic levels. These gains are reflected in stock prices, shareholder returns, and CEO compensation, all of which are commonly linked and have soared.[56]

The U.S. auto industry provides a notable example. The big three automakers (Ford, GM, and Stellantis [formerly Chrysler]) made $250 billion in profits between 2013 and 2022, while average employee wages declined 19%. Further fueling employee actions was the fact that CEOs of the big three received approximately $1 billion in compensation since 2010.[57]

But it is more than just bigger paychecks. Workers, and in many instances the unions that represent them, also push for improved staffing levels. Employees of the country's two largest pharmacies (Walgreens and CVS), for instance, have complained they are chronically understaffed, causing unsustainable levels of stress on employees and poor service for customers.[58]

High inflation on top of lagging pay caused a large proportion of the working population genuine financial strain.[59]

### Joining Forces Intensifies Pressure

The pressure resulting from activism can be intensified when multiple stakeholders align efforts, as was the case for the writers and actors in Hollywood. A strike by either group would be challenging for executives in the industry (e.g., Netflix, Disney, NBCUniversal, Apple, Sony, and Paramount), but together they effectively shut down the entire business of Hollywood.[60]

A supercharged version of concerted union efforts occurred with Tesla in Sweden. The mechanics' union sought a collective bargaining agreement (CBA) with the automaker, which they did not previously have, one that includes changes to wages, benefits, and working hours. The 120 mechanics seemingly did not have much success, but then at least three other Swedish unions

joined the mechanics' efforts and threatened to refuse service (i.e., strike). Members of the dockworkers' union refused to unload Teslas entering the country's ports (more than 1500 cars per month). Electricians refused to service Tesla charging stations (over 200 in late 2023), and maintenance workers stopped cleaning the company's 12 service centers.[61]

Support from the other unions was motivated by more than the specific items sought by the mechanics. A leader of the transportation union explained that CBAs are part of the Swedish system—more than 90% of Swedish workers have them. And any company that refuses to engage in and create such agreements threatens the Swedish business model.

For their part, Tesla leaders (including Elon Musk) claimed that since entering the country in 2013, the company has not only followed all applicable labor market rules, but it also pays equal or better terms than competitors. As such, Tesla sees no reason to enter a CBA.[62]

### Potential Costs for Employers, Employees, and Others

Although rare in this wave of labor activity, employees risk losing their jobs. It is not unheard of for employers to replace employees who walk off the job. Tesla, for instance, was rumored to have replaced some of the mechanics at multiple facilities.[63] Compounding challenges for striking employees in the United States is the loss of health insurance when not working.[64]

As for employers, protracted strikes obviously cost them business. The automakers lost over $5 billion,[65] and they, along with many other companies, saw their stock prices decline. These knock-on or domino effects can and often do cause investors (e.g., Wall Street analysts) to pressure company executives to cut costs to help compensate. Some of the major streaming and network companies were already struggling financially, like Disney, who reported losses of $4 billion and cut 7,000 jobs, most of which was attributed to its underperforming streaming service.[66]

There are also potential implications for competitiveness, according to Bill Ford, the executive chairman of Ford Motor. He claimed that United Auto Workers Union (UAW) strikes and the associated demands will make it more difficult for his and other U.S. auto companies to compete against Tesla, Toyota, and other non-unionized rivals.[67]
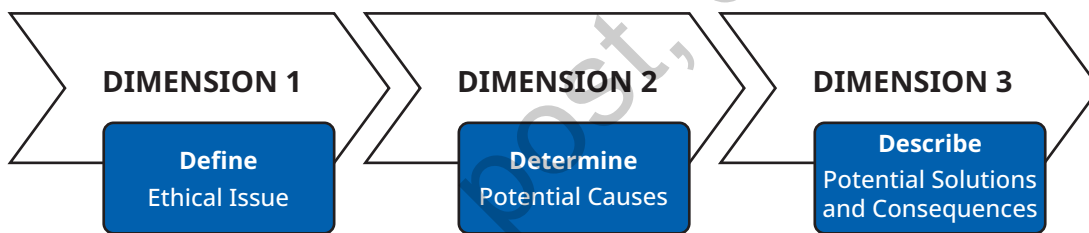
A crucial fact is that the cost of pay raises and other benefits will need to be paid for, and that most often means higher prices for products and services. Put differently, wins for labor (higher pay) may be experienced as losses for customer (higher prices). The auto companies provide a case in point for this predicament. The auto industry is in the midst of a tectonic shift to EVs, which requires (re)allocation of vast resources—human, technological, and financial. The dual pressures from employees, in the form of work stoppages and greater pay and benefits, along with the likely pushback from customers on higher prices are challenges every executive could do without.

### For Discussion

1. Assume you are the president of the United Auto Workers Union. Which stakeholders are most relevant in your decision to have auto workers strike? Don't just list stakeholder groups; also explain how each either potentially affects or is affected by your members striking.

2. Assume you are the CEO of Ford Motor Company. Which stakeholders are most relevant in your decision to settle the strike with the UAW? As in #1, don't just list the stakeholder(s); also explain how each potentially affects or is affected by your decision.

3. From the perspective of a union president representing Kaiser-Permanente health care workers, which ethical decision-making approach best describes your decision to strike for improved staffing and increased pay? Explain.

4. First, assume you are the president of the union that represents pilots who just settled a contract negotiation that increased pay by 40% over five years, reduced workloads, and provided greater job security. Now, also assume you feel this new agreement is indeed sustainable. Justify this position.

5. Now, do the same as #4, but this time from the perspective of an airline CEO who agreed to the new contract and also believes it is sustainable. Justify this position.

6. Generally speaking, which levels of social responsibility are reflected by employees (i.e., labor) in their decisions to strike? Explain, from the perspective of a specific industry included in the case, including whose interests are being served.

7. Regarding Tesla in Sweden, explain how morals, values, and business ethics norms were reflected in the unions' collective efforts to achieve a collective bargaining agreement with the company.

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**APPLY 3-DIMENSIONAL PROBLEM SOLVING FOR ETHICS**

| DIMENSION 1 | DIMENSION 2 | DIMENSION 3 |
|---|---|---|
| **Define** Ethical Issue | **Determine** Potential Causes | **Describe** Potential Solutions and Consequences |

**3-Dimensional Problem Solving for Ethics (3D PSE)**

You can apply the 3-Dimensional Problem Solving for Ethics from multiple perspectives, such as that of a CEO of a company with striking workers, an employee who has agreed to strike, or a customer or business owner who is negatively impacted by a strike, such as a stop in service (e.g., episodes of your favorite streaming show) or a loss of revenues due to workers not visiting your business (e.g., a restaurant). However, **let's try it from the perspective of the CEO of Ford Motor.**

### Dimension 1: Define the Ethical Challenge

a. Gap. What is the gap in this case, from the perspective of the Ford CEO? What do they have and what do they want? (Describe in one or two sentences.) From the CEO's point of view, what is the current situation with Ford employees, and how would you want it to be?

b. Why? Why? Why? (Why X 3). Why is the current situation a problem, from the CEO's perspective? Ask and answer the same question again—why is it a problem?—two more times to refine your answer? Consider, for instance, what difficulties or undesirable behaviors and outcomes happen as a result of the problem defined.

c. Stakeholders. Who are the key stakeholders relevant to the defined problem? Please list and explain how each affect or is affected by the problem you defined in "a." Then, label each stakeholder as primary or secondary.

**Dimension 2: Determine the Causes**

a. Individual Characteristics That Cause the Defined Problem. Given the problem you defined in Dimension 1a, how do characteristics of the Ford CEO influence the problem, such as ethical decision-making approach (Chapter 1); level of social responsibility (Chapter 2); work values (Chapters 2 and 4); moral development, moral disengagement, or ethical blind spots (Chapter 3); and perhaps biases (Chapter 4)?

b. Contextual Factors That Cause the Defined Problem. Are there particular values, policies, practices, or norms that caused the problem? These may be for Ford itself, the American auto industry more generally, unions, or other influences.

**Dimension 3: Describe Your Potential Solutions and the Intended and Unintended Consequences for Stakeholders**

Make the business case by answering the following questions:

a. *What* do you recommend and *how* will you implement it? Describe with reasonable detail your action plan. (Note: This is where your knowledge and skills are demonstrated.)

b. *Why* do it this way? Consider, for instance, does this reflect a particular ethical decision-making approach (e.g., egoism, utilitarianism, universalism, relativism, or another)? Explain.

If your responses to these questions are unsatisfactory, then go back to Dimension 1 and repeat the process. If, however, you are comfortable and confident in your problem-solving efforts thus far, then ensure you will achieve the desired outcomes and avoid any unintended consequences.

Test and refine your recommendations:

a. What is the *desired and likely effect in the short and long term* for the key stakeholders involved in the problem and causes (Dimensions 1 and 2)?

b. What *potential unintended consequences* may occur with your proposed solution?

c. If any, what are the *implications for* **other** *stakeholders* (e.g., individuals, organizations, and communities), besides those noted in Dimensions 1 and 2?

d. Will your solution work? Make a final assessment of whether your chosen solution will reduce or eliminate the causes determined in Dimension 2 and if this will then remedy the ethical problem defined in Dimension 1. If not, then repeat and refine the dimensions.