

## THE CHALLENGES OF BUSINESS ETHICS – MANAGEMENT AND THE QUESTION OF ETHICS

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### **Abstract**

Past several decades management has become a vital concern to society. If we look at pools, we notice that the public does not have good opinion about management ethics and business. For the management community to turn this situation around, significant efforts are required. It should be understood what management ethics means, why it is important and how it should be integrated into decision making. Principles of ethics from moral philosophy and management theory are available to inform interested managers.

Next challenge is to avoid immoral management, transitioning from an amoral to a moral management mode of leadership, behavior, decision making policies and practices. Moral management stands on ethical leadership. It requires that managers search out those vulnerable situations in which in which amorality may

reign if careful, thoughtful reflection is not given by management. Further requires that managers understand, and be sensitive to, all the stakeholders of the organization and their stakes. If the moral management model is to be achieved, managers need to integrate ethical wisdom with their managerial wisdom and to take steps to create and sustain an ethical climate in their organizations. When all that will be done, the desirable goals of moral management will be achievable.

**Keywords** Business Ethics, Responsibility, Management Ethics, Moral Management, Organization's Ethical Climate

### **INTRODUCTION**

Managers in organizations face ethical issues every day of their working lives. There is seldom a decision they face that does not have an ethical dimension or facet to it. In addition to facing ethical aspects in their decision making, they confront ethical issues as they carry out their leadership responsibilities. Whether they be engaged in planning, organizing, motivating, communicating, or some other management role, they face the fact that matters of right and wrong, fairness and unfairness, and justice or lack of justice creep into their decisions, actions or behaviors. Furthermore, it does not matter what level of management is under consideration - top, middle, or lower; managers at all levels, and in all functions, face situations wherein ethical considerations play a major role. The topic of ethics in management is a crucial one with which managers today must be informed. Therefore, it is the purpose of this article to survey some of the special topics about management ethics that may help the academic and practitioner alike to be more knowledgeable about this vital topic.

In this quest to provide insights into the topic of management ethics, or ethics in management, we shall first provide an overview of the topic, and then discuss a number of important themes such as: why managers should be ethical, ethical issues managers face, models of management morality, ethical decision making, and the manager's role in shaping the ethical climate of his or her organization. Some of these topics may touch upon others discussed in this volume, but we will strive to keep the overlap to a minimum.

## **1. OVERVIEW OF MANAGEMENT ETHICS**

Management, or managerial, ethics as a broad subject matter deals with the situations managers face in their work lives that are imbued with ethical content. By ethical content, we are referring to issues, decisions or actions which contain matters of right versus wrong, fair versus unfair, or justice versus injustice. That is, these situations are ones with which there may be some disagreement about what is the correct - or ethical - course of action or decision.

When we speak of management ethics, we also need to distinguish between what we are observing managers do today and what they should be doing as ethical managers. The former is often termed descriptive ethics; that is, we would be describing what managers are actually doing in terms of their ethics or their actions and decisions with respect to their ethicality. By contrast, when we speak of what managers "ought" to be doing, or "should" be doing, this is typically referred to as normative ethics. In this chapter, we will be concerned both with descriptive and normative ethics; however, our foremost concern is with what managers should be doing to enhance their own ethics and the ethical climates in their organizations.

Management ethics may be seen as a component of corporate social responsibility (CSR). In the past fifty years, there has been an unrelenting call for businesses to be more socially responsible. That is, there has been a blossoming expectation that business not only be profitable and obey the law, but that it be ethical and a good corporate citizen as well. Thus, it may be asserted that the four social responsibilities of business are as follows: be profitable, obey the law, engage in ethical practices, and be philanthropic, or be a good corporate citizen (Carroll 1979 497-505). To be sure, these other responsibilities (profitability, legal obedience, and philanthropy) contain ethical content, but we think it is important to single out the ethical component as one part of what an organization does beyond the minimum. Though society expects business organizations to be profitable, as this is a precondition to their survival and prosperity, profitability may be perceived as "what the business does for itself," and obeying the law, being ethical and being a good corporate citizen may be perceived as "what the firm is doing for others (society or other stakeholders)." In this discussion, we sharpen our focus to the ethical component of CSR and dwell on what this means for managers in organizations today.

## 2. WHY SHOULD MANAGERS BE ETHICAL?

One might rightly ask "Why should managers be ethical?" Using the frame of reference mentioned above, the short answer would be that society *expects* managers to be ethical and that managers should be responsive to the expectations of society and stakeholders if they wish to maintain their legitimacy as agents in society. From a moral philosophy perspective, managers should be ethical because it is the right thing to do. We should go beyond these simple, but appropriate, answers, however, and point out some other reasons why ethical behavior and practice is warranted. Some of the reasons often given as to why managers should be ethical include the following that are set forth by Rushworth Kidder (1997). Kidder suggests that, in at least ten ways, managers are finding that sound ethics can have a practical impact on the bottom line:

- Shared values build trust.
- Consistency leads to predictability in planning.
- Predictability is essential for crisis management.
- Confidence in such rewards builds loyalty.
- Companies are as good as their people.
- Consumers care about values.
- Shareholders also care about values.
- Ethical leadership forestalls oppressive regulation.
- Effective partnerships depend on common values.
- Ethics is a form of insurance.

An examination of these reasons suggests two broad categories of justification:

1. Society and stakeholders expect managers to do what is right, fair and just.
2. It is in organizations' and managers' best interests to be ethical.

Regarding the first reason, it has been clearly documented by studies and surveys that business and its agents - managers - are expected to be ethical. For example, a Lou Harris, survey of adults found that 95 percent of the 1,000 adults surveyed felt that US corporations owe something to their workers and the communities in which they operate, and that they should sometimes sacrifice some profit for the sake of making things better for their workers and communities (*Business Week*, 1996, 65).

It has also been well established that it is in the best long-term interests of organizations and managers to be ethical. At a minimum, ethical management practices keep organizations and managers out of trouble. The threats of expensive, prolonged litigation or the likelihood of more significant governmental intervention in the form of regulations, are strong, practical reasons for ethical behavior. Furthermore, the ethical climate created by the management group may have a significant bearing on the actions and behaviors of employees and may, indeed, lead to unethical practices that are costly to management and the organization.

One company's experience in this regard is worth mentioning. According to a major *USA Today* article, Prudential Insurance was a victim of an ethical breakdown which was quite costly to it (Jones, 1997). The large insurance company may end up paying \$1 billion to policyholders who were coaxed by Prudential agents into buying more expensive life insurance than they needed. Prudential replaced more than 1,000 of its

agents and managers due to the high-profile scandal (Jones, 1997, 1A). Prudential's experience, however, is not an isolated case. In a major study by the Ethics Officer Association and the American Society of Chartered Life Underwriters & Chartered Financial Consultants, costly violations resulting from ethical and legal lapses are common at all levels of the American workforce. With 48 percent of workers surveyed admitting to unethical or illegal acts, management groups everywhere have a serious problem on their hands (Jones, 1997, 1A).

Thus, it may be concluded that there are strong and persuasive reasons for managers to engage in and promote ethical behavior within their organizations. The reasons range from normative ones (managers are *expected* to be ethical and *ought* to be ethical) to the pragmatic or instrumental (it is in their *self-interest* to be ethical).

### 3. ETHICAL ISSUES MANAGERS FACE

When does a manager face an ethical issue? According to Ferrell and Fraedrich (1991, 35), "an ethical issue is a problem, situation or opportunity requiring an individual or organization to choose among several actions that must be evaluated as right or wrong, ethical or unethical." Josephson helps us to understand an ethical issue when he states that conduct has a significant ethical dimension if it involves dishonesty, hypocrisy, disloyalty, unfairness, illegality, injurious acts, or unaccountability. These represent at least two ways of thinking about ethical issues managers face.

Managers today face many such ethical issues and these issues may be grouped according to different levels at which they occur. Managers experience ethical issues at the personal, organizational, trade/professional, societal and global levels (Carroll 1996, 145-8).

Furthermore, ethical issues may be categorized in a number of different ways. Vitell and Festervand identify conflicts between companies' or managers' interests and personal ethics. In their study, these issues arise between managers and their conflicts with such stakeholder groups as customers, suppliers, employees, competitors, law and government, superiors, wholesalers, and retailers. In terms of specific issues, these same researchers see ethical conflicts arising in these situations: the giving of gifts and kickbacks, fairness and discrimination, price collusion and pricing practices, firings and layoffs, and honesty in communications and executing contracts with investors (Vitell and Festervand 1987, 114).

According to a major report from The Conference Board, there is widespread agreement that the following constitute ethical issues for managers: employee conflicts of interest, inappropriate gifts, sexual harassment, unauthorized payments, affirmative action, employee privacy, and environmental issues (Berenbeim 1987, 3). In this same report, CEOs reported specific topics which constituted ethical issues for them, which were categorized as follows:

- *Equity*: Executive salaries, comparable worth, product pricing
- *Rights*: Corporate due process, employee health screening, privacy, sexual harassment, affirmative action/equal employment opportunity

- *Honesty*: Employee conflicts of interest, security of employee records, inappropriate gifts, unauthorized payments to foreign officials, advertising content
- *Exercise of corporate power*: Political action committees, workplace/product safety, environmental issues, disinvestment, corporate contributions, closures/downsizings.

Finally, Waters, Bird and Chant (1986, 375), provide us with insights into what managers consider to be ethical issues based on their research using open-ended interviews with managers in a variety of organizational positions. In response to the question "What ethical questions come up or have come up in the course of your work life?" the following ethical, or moral, issues were identified most frequently:

- With respect to *employees*: feedback about performance and standing; employment security; appropriate working conditions
- With respect to *peers* and *superiors*: truth-telling, loyalty and support
- With respect to *customers*: fair treatment, truth-telling, questionable practices, collusion
- With respect to *suppliers*: fair/impartial treatment, balanced relationship, unfair pressure tactics, truth-telling
- With respect to *other stakeholders*: respecting legal constraints, truth-telling in public relations, stockholder interests

To be sure, managers face many situations in which ethical issues arise. These situations may occur at a multitude of levels, they involve multiple stakeholders, and they may be categorized or perceived in a variety of ways. What do they have in common? Virtually all ethical issues managers face may be characterized as a conflict of interest. The conflict usually arises between the manager's own values or ethics and those of his or her employer, employees, or some other stakeholder group which has an interest in the decision.

#### 4. MODELS OF MANAGEMENT MORALITY

It can often be difficult to discern whether managers are being ethical or unethical, moral or immoral. In our discussion here, we are equating the terminology of ethics with that of morality, though there might be subtle differences that philosophers or theorists would want to make. In thinking about management behavior, actions, or decisions, it is often impossible to clearly categorize these actions as moral or immoral. In a quest to understand management behavior, a third category is usefully added, that of amorality. Carroll has presented three models of management morality that help us to understand better the kinds of behavior that may be manifested by managers. These three models, or archetypes - immoral management, moral management, and amoral management - serve as useful base points for discussion and comparison (Carroll 1987, 8).

The media has focused so much on immoral or unethical management behavior that it is easy to forget or not think about the possibility of other ethical types. For example, scant attention has been given to the distinction that may be made between those activities that are immoral and those that are amoral; similarly, little attention has been

given to contrasting these two forms of behavior with ethical or moral management. A major goal in considering the three management models of morality is to develop a clearer understanding of the full gamut of management behavior in which ethics or morality is a major dimension. Further, it is helpful to see through description and example the range of ethical behavior that management may intentionally, or unintentionally, display. Let us consider the two extreme positions first.

#### **4.1. Immoral management**

Let us start with immoral management as this model is perhaps most easily understood and illustrated. Immoral management is a style that not only is devoid of ethical principles or precepts, but also implies a positive and active opposition to what is ethical. Immoral management is discordant with ethical principles. This view holds that management's motives are selfish and that it cares only about its own or its organization's gains. If management activity is actively opposed to what is regarded as ethical this implies that management can distinguish right from wrong, and yet chooses to do wrong.

According to this model, management's goals are purely selfish (if the individual is acting on his or her own behalf), or focused only on profitability and organizational success (if the individual is acting as an agent of his or her employer). Immoral management regards the law or legal standards as impediments it must overcome to accomplish what it wants. The operating strategy of immoral management is to exploit opportunities for organizational or personal gain. An active opposition to what is moral would suggest that managers would cut corners anywhere and everywhere it appeared useful to them. The key operating question of immoral management would likely be: "Can I gain from this decision or action, or can we make money with this decision or action, regardless of what it takes?"

*Examples of immoral management* Examples of immoral management are easy to identify as they frequently involve illegal actions or fraud. The Frigitemp Corporation, a manufacturer of refrigerated mortuary boxes, provides an example of immoral management at the highest levels of the corporate hierarchy. In litigation, criminal trials, and federal investigations, corporate officials, including the president and chairman, admitted to having made millions of dollars in payoffs to get business. They admitted taking kickbacks from suppliers, embezzling corporate funds, exaggerating earnings, and providing prostitutes to customers. One corporate official said that greed was their undoing. Records indicate that Frigitemp's executives permitted a corporate culture of chicanery to flourish. The company eventually went bankrupt because of management's misconduct.

Another example of immoral management was provided by a small group of executives at the Honda Motor Co. Federal prosecutors unraveled a long-running fraud in which a group of Honda executives had pocketed in excess of \$ 10 million in bribes and kickbacks paid to them by car dealers. In exchange, the executives gave dealers permission to open lucrative dealerships and they also received scarce Honda automobiles, which were in short supply at the time. Eight executives pleaded guilty and many others were indicted.

#### **4.2. Moral management**

At the opposite extreme from immoral management is moral management. Moral management conforms to high standards of ethical behavior and professional standards of conduct. Moral management strives to be ethical in terms of its focus on, and preoccupation with, ethical norms and professional standards of conduct, motives, goals, orientation toward the law, and general operating strategy. In contrast to the selfish motives of immoral management, moral management aspires to succeed but only within the confines of sound ethical precepts - that is, standards predicated on such norms as fairness, justice, and due process. Moral management would not pursue profits at the expense of the law and sound ethics. Indeed, the focus would be not only on the letter of the law but on the spirit of the law as well. The law would be viewed as a minimal standard of ethical behavior because moral management strives to operate at a level well above what the law requires.

Moral management requires ethical leadership. It is an approach which strives to seek out the right thing to do. Moral management would embrace what Lynn Sharp Paine (1994, 110) has called an "integrity strategy." An integrity strategy is characterized by a conception of ethics as the driving force of an organization. Ethical values shape management's search for opportunities, the design of organizational systems, and the decision-making process. Ethical values in the integrity strategy provide a common frame of reference and serve to unify different functions, lines of business and employee groups. Organizational ethics, in this view helps to define what an organization is and what it stands for.

*Examples of moral management* A couple of examples of moral management are illustrative. When McCullough Corporation, maker of chain saws, withdrew in protest from the national Chain Saw Manufacturer's Association because the association fought mandatory safety standards for the dangerous saws, this illustrated moral management. McCullough knew its industry's products were dangerous and had put chain brakes on its saws years before, even though it was not required to do so by law. Later, it withdrew from the association because this group fought government regulations to make their products safer.

Another well-known case of moral management occurred when Merck and Co., the pharmaceutical firm, invested millions of dollars to develop a treatment for river blindness, a third world disease affecting almost 18 million people. Seeing that no government or aid organization was agreeing to buy the drug, Merck pledged to supply the drug free forever. Merck's recognition that no effective mechanism existed to distribute the drug led to its decision to go far beyond industry practice, and to organize and fund a committee to oversee the distribution.

#### **4.3. Amoral management**

There are two kinds of amoral managers: unintentional and intentional. Unintentional amoral managers are neither immoral nor moral but are not sensitive to, or aware of, the fact that their everyday business decisions may have deleterious effects on other stakeholders (Carroll 1995, 47-74). Unintentional amoral managers lack ethical

perception or awareness. That is, they go through their organizational lives not thinking that their actions have an ethical facet or dimension. Or, they may just be careless or insensitive to the implications of their actions on stakeholders. These managers may be well intentioned, but they do not see that their business decisions and actions may be hurting those with whom they transact business or interact. Typically, their orientation is towards the letter of the law as their ethical guide.

Intentional amoral managers simply believe that ethical considerations are for our private lives, not for business. These are people who reject the idea that business and ethics should mix. These managers believe that business activity resides outside the sphere to which moral judgments apply. Though most amoral managers today are unintentional, there may still exist a few who simply do not see a role for ethics in business or management decision making (Carroll, 1987). Fortunately, intentional amoral managers are a vanishing breed.

*Examples of amoral management* An early example of amoral decision making occurred when police departments stipulated that applicants must be 5' 10" and weigh 180 pounds to qualify for being a police officer. These departments just did not think about the unintentional, adverse impact their policy would have on women and some ethnic groups who, on average, do not attain that height and weight. This same kind of thinking spilled over into the business context when firms routinely required high school diplomas as screening devices for many jobs. It later became apparent that minority groups were adversely impacted by this policy and, therefore, was unintentionally unfair to many of them who otherwise would have qualified for the job. The liquor, beer and cigarette industries provide other examples of amorality. Though it is legal to sell their products, they did not anticipate that their products would create serious moral issues: alcoholism, drunk driving deaths, lung cancer, deteriorating health, and offensive secondary smoke. A specific corporate example of amorality occurred when McDonald's initially decided to use polystyrene containers for food packaging. Management's decision did not adequately consider the adverse environmental impact that would be caused. McDonald's surely did not intentionally create a solid waste disposal problem, but one major consequence of its decision was just that. To its credit, the company responded to complaints by replacing the polystyrene packaging with paper products. By taking this action, McDonald's illustrated how a company could transition from the amoral to the moral category.

There are two possible hypotheses regarding the three models of management morality that are useful for ethics in management.

- One hypothesis concerns the distribution of the three types over the management population, generally. This *population hypothesis* suggests that, in the management population as a whole, the three types would be normally distributed with immoral management and moral management occupying the two tails of the curve, and amoral management occupying the large middle part of the normal curve. According to this view, there are a few immoral and moral managers, given the definitions stated above, but that the vast majority of managers are amoral. That is, these managers are well intentioned, but simply don't think in ethical terms in their daily decision making.



- A second hypothesis might be called the *individual hypothesis*. According to this view, each of the three models of management morality may operate at various times and under various circumstances within each manager. That is, the average manager may be amoral most of the time but may slip into a moral or immoral mode on occasion, based on a variety of impinging factors.

Neither of the above two hypotheses has been empirically tested. However, they provide food for thought for managers striving to avoid the immoral and amoral types. It could well be argued that the more serious social problem in organizations today is the prevalence of amoral, rather than immoral, managers. Immoral management is headline grabbing, but the more pervasive and insidious problem may well be that managers have simply not integrated ethical thinking into their everyday decision making, thus making them amoral managers. These amoral managers are basically good people, but they essentially see the competitive business world as ethically neutral. Until this group of managers moves toward the moral management ethic, we will continue to see businesses and other organizations criticized as they have been in the past several decades (Carroll, 1996).

## 5. ETHICAL DECISION MAKING

We have alluded to the importance of ethical decision making, but it is useful to treat it briefly as a distinct topic. Decision making is at the heart of the management process.

If there is any act or process that is synonymous with management, it is decision making. Though there is a need for improved managerial performance in the private and public sectors, there is a special need for improved ethical decision making by managers. Petrick and Quinn (1997, 24-5) state five reasons for managers to improve their ethical decision making:

1. The costs of unethical workplace conduct
2. The lack of awareness of ethically questionable, managerial, role-related acts
3. The widespread erosion of integrity and exposure to ethical risk
4. The global corruption pressures that threaten managerial and organizational reputation
5. The benefits of increased profitability and intrinsically desirable organizational order.

In the academic literature, there is much written about ethical decision making, including the use of models of ethical decision making. Most business ethicists would advocate the use of ethical principles to guide organizational decision making. A principle of business ethics is a concept, guideline, or rule that, if applied when you are faced with an ethical dilemma, will assist you in making an ethical decision. There are many different principles of ethics, but an extensive coverage of them is outside the scope of this chapter. Suffice it to say here that such useful principles include the principles of justice, rights, utilitarianism and the golden rule (Buchholz and Rosenthal 1998). The basic idea behind the principles approach is that managers may improve the quality of their ethical decision making if they factor into their proposed actions, decisions, behaviors and practices, a consideration of certain principles of ethics.

A very practical approach to ethical decision making has been suggested by Laura Nash (1981, 80) who argues that there are twelve questions managers should systematically ask in a quest to make an ethical decision:

1. Have you defined the problem accurately?
2. How would you define the problem, if you stood on the other side of the fence?
3. How did this situation occur in the first place?
4. To whom and what do you give your loyalties as a person, and as a member of the corporation?
5. What is your intention in making this decision?
6. How does this intention compare with the likely results?
7. Whom could your decision or action injure?
8. Can you engage the affected parties in a discussion of the problem, *before* you make your decision?
9. Are you confident that your position will be as valid over a long period of time as it seems now?
10. Could you disclose without qualms your decision or action to your boss, your CEO, the board of directors, your family, or society as a whole?
11. What is the symbolic potential of your action if understood? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?

Another set of useful questions to aid ethical decision making has been offered by Blanchard and Peale (1988). They recommend that managers ask these questions before making a decision, and they call these three questions the "ethics check."

1. *Is it legal?* Will I be violating either civil law or company policy?
2. *Is it balanced?* Is it fair to all concerned in the short term as well as the long term? Does it promote win-win relationships?
3. *How will it make me feel about myself?* Will it make me proud? Would I feel good if my decision was published in the newspaper? Would I feel good if my family knew about it?

Obviously, the "wrong" answers to the above questions should move the manager into reconsidering his or her decision.

## 6. SHAPING THE ORGANIZATION'S ETHICAL CLIMATE

In addition to striving towards moral management and fully integrating ethical considerations into management decision making, managers have another major responsibility: shaping the organization's ethical climate. As we shift our attention away from the manager's personal actions and decision making, it is imperative that managers, as leaders, consider carefully the context in which decision making and behavior occurs - the organization. To manage ethics in an organization, the manager needs to appreciate that the organization's ethical climate is just one part of its overall corporate culture. This point is effectively illustrated in the now classic Tylenol case. When McNeil Laboratories, a subsidiary of Johnson & Johnson, voluntarily withdrew Tylenol from the market immediately after the reported incidents of tainted, poisoned product, some people wondered why they made this decision as they did. Johnson & Johnson's often cited response was "It's the J & J way." This statement conveys a

significant message about the role of a firm's ethical climate. It also raises the question of how organizations and managers should deal with, understand, and shape business ethics through actions taken, policies established, and examples set. The organization's moral climate is a complex phenomenon, and it is greatly shaped by management's actions, policies, decisions, and examples. Aguilar (1994,15) goes so far as to say that an ethical corporate climate can "supercharge" a well-managed and well-positioned business by helping to release creative ideas and by fostering collaborative follow-through.

Important components of an organization's ethical climate or culture include, but are not limited to: top management leadership, codes of conduct, ethics programs, realistic objectives, processes for ethical decision making, effective communication, disciplining of ethics violators, ethics training, ethics audits, and the use of whistle-blowing mechanisms (Carroll, 1996). Several research studies have concluded that the behavior of superiors is the most important factor contributing to the organization's ethical climate; therefore, this point needs to be fully understood and embraced by all managers.

## SUMMARY AND CONCLUSIONS

Management ethics has become a vital concern to organizations and society over the past several decades. Polls indicate that the public does not have a high regard for business and management ethics. For the management community to turn this situation around, significant efforts are required. Part of the challenge is coming to understand what management ethics means, why it is important and how it should be integrated into decision making. Principles of ethics from moral philosophy and management theory are available to inform interested managers.

One of the most formidable challenges is avoiding immoral management, and transitioning from an amoral to a moral management mode of leadership, behavior, decision making, policies and practices. Moral management requires ethical leadership. It entails more than just "not doing wrong." Moral management requires that managers search out those vulnerable situations in which amorality may reign if careful, thoughtful reflection is not given by management. Moral management requires that managers understand, and be sensitive to, all the stakeholders of the organization and their stakes. If the moral management model is to be achieved, managers need to integrate ethical wisdom with their managerial wisdom and to take steps to create and sustain an ethical climate in their organizations. If this is done, the desirable goals of moral management are achievable.

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