Objectives for Today

• Overview of ethics

• Begin corporate ethics and social responsibility

• The four faces of social responsibility

The Nature of Ethics

• Ethics
  – The inner-guiding moral principles, values, and beliefs that people use to analyze or interpret a situation and then decide what is the “right” or appropriate way to behave

The Nature of Ethics

• Ethical Dilemma
  – Quandary people find themselves in when they have to decide if they should act in a way that might help another person even though doing so might go against their own self-interest

Determinants of Ethics

Some Failures in Professional Ethics

• Unsafe products/service
• Unsubstantiated product/service claims
• Misleading financial analysis, “cooking the books”
• Excessive expense/perks for managers
• Hiding management compensation
• Inconsistent treatment of employees
• Encroachment on employee privacy
• Failure to act to employee concerns about workplace

Stakeholders Expect Ethical Conduct
Stockholders

- Want to ensure that managers are behaving ethically and not risking investors’ capital by engaging in actions that could hurt the company’s reputation
- Want to maximize their return on investment

Managers

- Should not seek to maximize personal wealth.
- Responsible for using a company’s financial capital and human resources to increase its performance
- Have the right to expect a good return or reward by investing their human capital to improve a company’s performance
- Frequently juggle multiple interests

Why should managers behave ethically?

- **Trust**
  - Willingness of one person or group to have faith or confidence in another person’s goodwill, even though this puts them at risk
- **Reputation**
  - Esteem or high repute that individuals or organizations gain when they behave ethically

Employees

- Companies can act ethically toward employees by creating an occupational structure that fairly and equitably rewards employees for their contributions

Suppliers and Distributors

- Suppliers expect to be paid fairly and promptly for their inputs
- Distributors expect to receive quality products at agreed-upon prices

Why should managers behave ethically?

- Relentless pursuit of self-interest can lead to a collective disaster when it snowballs
- One or more people start to profit from being unethical because this encourages other people to act in the same way
Customers

- Most critical stakeholder
- Company must work to increase efficiency and effectiveness in order to create loyal customers and attract new ones

Community, Society, and Nation

- Provides a company with the physical and social infrastructure that allows it to operate
- Does a company or organization have a responsibility to the community?

Ethical Decision Making

1. Does my decision fall within the acceptable standards that apply in business today?
2. Am I willing to see the decision communicated to all people and groups affected by it?
3. Would the people with whom I have a significant personal relationship approve of the decision?

Ethical Organizational Cultures

- Managers can ensure that important ethical values and norms are key features of an organization’s culture
- Managers become ethical role models whose behavior is scrutinized by their subordinates

Social Responsibility

Manager’s duty or obligation to make decisions that nurture, protect, enhance and promote the welfare and well-being of stakeholders and society as a whole
Flashback: Attitudes and Values

• Attitude
  – positive or negative reaction to a specific object or situation (very focused)
• Value
  – enduring belief that a specific mode of conduct or end-state is personally or socially preferable

Ethics

a value system to judge the right and wrong of individual and societal actions

Basic Ethical Frameworks

Crash course in Moral Philosophy:

• Relativism
• Pluralism
• Deontological Theories
• Consequentialism
  – Egoism
  – Utilitarianism

(Robert Cavalier 2006)

Basic Ethical Frameworks

• Positive Statement: a statement about what is, and that contains no indication of approval or disapproval.
  – “Human population is increasing”
  – “The climate is warming”
• Normative statement: a statement that expresses a judgment about whether a situation is desirable or undesirable – a judgment about what ought to be.
  – “We ought to institute policies to promote energy independence.”

Ethical Relativism

• There is a distinction between "morals" and "mores":

Morals: "treatment of others" (e.g., "the practice of slavery").

Mores: "harmless customs" (e.g., "tea at 4");

Relativism is concerned with "moral practices."

Ethical Relativism

What one society considers Right, another Society considers Wrong. Therefore, right and wrong are relative to a particular society.

– "x is considered right in Society y at time t" and "x is considered wrong in Society z at time t."

Examples?
Moral Pluralism

- **Positive Pluralism**
  Many different moral views may exist within the same society. A diversity of outlooks — religious and moral — do exist.

- **Normative Pluralism**
  Moral truths do exist, however the diversity of different moral views does not present a coherent picture of what those truths are.

Deontological Theories

- Right or wrong is based on the action itself
- Act based on moral laws and duties
  - Do not kill, do not steal, do help others, etc.
  - “the golden rule”, The 10 Commandments
  - Kant’s Categorical Imperative: the moral action is able to be translated into universal law
  - When laws conflict, we choose the lesser of two evils based on “instinct”:
    - E.g. lying to save someone’s life is O.K.? Right?

Consequentialism

- The outcome of an action determines if the action is right or wrong
  - Egoism
  - Utilitarianism

Egoism

- Human action is driven by self-interest.
- The morality of an action is based on generating the best possible outcome for the individual
  - Failing to return a lost wallet with $100 cash benefits us financially, so we do it
  - Returning a lost wallet with $100 makes us feel good about ourselves, so we do it. (Does altruism exist?)
  - We return the wallet because God is watching, and we want to go to heaven

Utilitarianism

- A consequentialist normative theory
- The right or wrong of an action determined solely by the outcomes
- Takes into account the outcomes for both the individual (a la egoism) and others
  - Maximize total good
  - Minimize total harm
- We should (normative) seek to maximize good

Utilitarianism

Jeremy Bentham's Principle of Utility:

1. Recognizes the fundamental role of pain and pleasure in human life,
2. approves or disapproves of an action on the basis of the amount of pain or pleasure (consequences) brought about
3. equates good with pleasure and evil with pain, and
4. asserts that pleasure and pain are capable of quantification (and hence 'measure').

Jeremy Bentham (1748 – 1832)

“Greatest good for the greatest number.”
Utilitarianism

- How do we decide right and wrong?
- Measure pleasure and pain (consequences)
- Evaluate:
  - Intensity
  - Duration
  - Certainty/uncertainty
  - Nearness/farness
  - Prolific (will more of the same follow?)
  - Extent (number of people who will be affected)

Utilitarianism

John Stuart Mill (1806-1873)
Adjusted the more hedonistic tendencies in Bentham’s philosophy by emphasizing:
1. It is not the quantity of pleasure, but the quality of happiness that is central to utilitarianism,
2. qualities cannot be quantified, there is a distinction between ‘higher’ and ‘lower’ pleasures (not all pleasures are equal), and
3. utilitarianism refers to “the Greatest Happiness Principle” -- it seeks to promote the capability of achieving happiness (higher pleasures) for the most amount of people.

Potential Rationalizations:
- Slavery
- Torture
- Death Penalty

Do deontological rules trump utilitarianism?

Right versus Moral decision?

Deontological Theories
Depends on the law, norms, duties, categorical imperative
- Thou shalt not kill.
- Do no harm (Hippocratic oath).
- Do not break the law.
- Do not violate commandments.

Which of these philosophies does our society emphasize?
- Relativism
- Pluralism
- Deontological Theories
- Consequentialism
  - Egoism
  - Utilitarianism

How can we apply these frameworks to organizations?
- Relativism
- Pluralism
- Deontological Theories
- Consequentialism
  - Egoism
  - Utilitarianism
The Four Faces of Social Responsibility

- Dalton and Cosier 1982
- Focus on:
  - Legality of action
  - Responsibility of action
- Peter Drucker
  - What an organization does to society
  - What an organization does for society

Social Responsibility

Manager’s duty or obligation to make decisions that nurture, protect, enhance and promote the welfare and well-being of stakeholders and society as a whole

The Four Faces of Social Responsibility

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How can Legal and Responsible be bad!?!?

- Unilateral, involuntary redistribution of assets
  - Managers are employees, shareholders are owners
  - Social responsibility costs money, violates fiduciary responsibilities
- Inequitable, regressive redistribution of assets
  - The “reverse Robin Hood effect”
  - Tax the poor, give to the rich
  - Example: Exxon corporate contribution to fund a museum, ballet, opera, symphony

How can Legal and Responsible be bad!?!?

- The organization is exceeding its providence
  - Social responsibility is government’s job
  - If corporations get involved, government may be wasteful elsewhere
  - Analogy of the corporation as medieval church
- Social responsibility is too expensive
  - Ratchet effect, ever stricter standards, “safety at any costs”
  - Drag on economy results in everyone worse off