

Chapter 1

Business Ethics: The Costs and Benefits



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Learning Objectives

- 1.1 Identify common types of unethical behaviors in the workplace.
- 1.2 Describe how unethical behaviors can be very costly to organizations.
- 1.3 Explain the competitive advantages of creating and maintaining an ethical organization.
- 1.4 Discuss why good people occasionally behave unethically.
- 1.5 Apply the Ethical Systems Model to create a high-integrity work culture.

Introduction

What Would You Do? Billing for Services Rendered

After you graduate with your medical coding certificate, you enter a 6-month manager training program associated with a prestigious hospital. Medical coding is fascinating and complex. Coders are responsible for processing patient data, such as treatment records and related insurance information. In addition to providing necessary record keeping, coders translate information into the appropriate codes for proper payment from insurance companies.

As part of your training program, you observe some medical visits with patient permission. During one visit, you observe a doctor and patient discussing a particular condition and the medication needed to alleviate it. Unfortunately, the medication is not covered by his insurance company. The patient said, “I can’t afford to pay for the medicine out of pocket.” The caring doctor tells the patient not to worry, she can work around that problem.

Later that day, you were in the billing department, and you receive the patient’s documents to code. The information on the doctor’s notes does not match the interaction you observed. You point this out to your trainer. “This happens on rare occasions,” he tells you. “It’s a similar illness, and the insurance companies will never know. They make a fortune from us anyway. On a few occasions, they somehow find out, and we just say it was a simple mistake. The doctor has an office account that covers the amount not reimbursed to patients. Everyone does it. Just enter the code for the illness reported by the doctor in the notes.”

Critical Thinking Questions

1. What *could* you do?
2. What *would* you do?
 - a. Enter the code for the illness reported by the doctor
 - b. Refuse to enter the code for the illness reported by the doctor
3. Something else (if so, what?)
4. Why is this the right option to choose?
5. What are the ethics underlying your decision?

Ethical Issues at Work

- 1.1 Identify common types of unethical behaviors in the workplace.

A **well-managed organization** is a *community of people* on a *common mission* to be *effective*, *efficient*, and *ethical*. Part of your job as a manager (and a leader) is to help develop that common mission among this community of people to accomplish goals (effective), without wasting resources (efficient), and in a manner that respects each person’s dignity and integrity (ethical). The financial well-being of organizations depends on employees appropriately serving the needs of its stakeholders. A **stakeholder** is any person or organization that is

affected by or that could affect an organization's goal accomplishment. If employees are not ethical, then stakeholders may be negatively impacted and the effectiveness and efficiency accomplishments will be short-lived. Understanding and cultivating good ethical practices is critical.

What are good ethical practices? They are practices that incorporate ethical thinking and decision making. **Ethics** are the principles a person uses to determine whether an action is good or bad. Every stakeholder interaction can be interpreted through an ethical lens.

Ethics permeate business activities. The foundation of the business—whether it is the manufacture and sale of a product or the provision of a service—should be determined by ethical decision-making. In general, businesses significantly improve the quality of life by providing goods and services that fulfill consumer needs. Generally, consumers want these products and services to be useful and to fulfill a good purpose. Service to others, one of the most admirable ethical principles, is at the heart of business operations. Businesses exist that provide what many consider to be unethical products or services, such as cigarette manufacturers and producers of pornography. As we will see in Chapter 2, the decision to offer those products is likely based on less complex ethical thinking, with a focus on a very small set of stakeholders—those who will make money from the decision.

Providing goods and services is just one ethical aspect of business operations. Staffing and training people also have an influence on the ethical decision-making of a business. Managing a business requires a broad cooperative network of human interactions. A company needs skilled and trustworthy people to help with product development, financing, marketing, accounting, management, and sales. A well-managed organization will find people throughout its operation that have consistent (and high) ethical standards.

An organization's leadership can influence a company's ethical environment through the implementation of processes and policies. Articulated standards and expectations in supply-chain contracts can eliminate certain unethical behavior, such as by discouraging the use of child laborers in the international manufacturing of components for your product. Data security and privacy policies will guide the ethical disclosure and use of a company website collecting data about consumers' private lives. Technology policies can reduce or eliminate employee misuse of company computing resources for personal gain. Ethics programs can encourage employees to report unethical behavior.

Sometimes, ethical standards are codified in law and regulation and then impact all businesses and industries. Federal, state, and local governments create rules and regulations to ensure stakeholders are treated appropriately. Regulators ensure employees are fairly treated, customers and suppliers are dealt with honestly, and the natural environment is protected.

Ethical behavior at work is a personal choice influenced by an individual's past behaviors and current workplace environment. Some owners and managers choose to surpass the minimum requirements of existing rules and regulations, some choose to meet existing rules and regulations, and others continually exploit loopholes in existing rules and regulations. Stakeholders reward ethical organizations that go beyond compliance with their loyalty and avoid doing business with organizations that violate good business practices.

This chapter discusses why appropriately cultivating and managing workplace ethics is essential for every organization. The chapter explores ethical issues at work, costs associated with unethical behaviors, competitive advantages of being ethical, and why good people occasionally behave unethically. Finally, this chapter introduces the Ethical Systems Model, a framework to assist in developing and supporting an ethical environment.

The Daily Occurrence of Ethical Issues

Nearly every decision made during a day can be analyzed through an ethical lens and may have ethical ramifications. But there are some who subscribe to a theory known as the **separation thesis**. This theory maintains that moral and ethical issues can be separated from operational and financial issues. Without paying attention to the ethical implications of decisions, business leaders sometimes are blindsided by stakeholder anger and other obstacles. Business ethicists Jared Harris and R. Edward Freeman argue that “separating economic considerations and ethical considerations is impossible.”¹ Economics and ethics are integrative concepts that cannot be disentangled. Business decisions impact people, and whether that impact is good or bad or right or wrong is the domain of ethics. A decision to relocate facilities has financial implications, but it also has ethical considerations as it may harm laid-off employees and the community in which the business has participated.

People experience a multitude of ethical dilemmas daily because almost every decision and action a person makes affects other people:

- Should you arrive at work early, on time, or late?
- Should you submit adequate work that meets a deadline or submit the highest-quality work possible and miss the deadline?
- Should you inform your boss about your colleague’s questionable work habits?
- Should you leave work at the designated time or cancel after-work plans and stay late to finish a project?

Ethical dilemmas are of two types, either conscious or unconscious. A *conscious* ethical dilemma occurs when the decision maker is acutely aware of the ethical implications of a decision and must struggle through the process. This may be when someone knows an action is right or good but is tempted to do what is wrong or bad. It may be that they have to make a decision where there are no good alternatives. For example, arriving at work on time is the right thing to do. But if you stayed at work late one night, the next morning you may be tempted to come in late. You know that coworkers may be depending on you and that you are expected to be at work, but you may think you deserve extra sleep. This is a conscious ethical dilemma; you are fully aware that you are making a moral choice between two competing actions. While there may be additional ethical resolutions, such as contacting your boss for permission to come in late, the decision-making process is required because of a conscious ethical dilemma.

An *unconscious* ethical dilemma happens when you are not aware of the ethical implications of a decision. For example, you stay at work late one night to complete a project. Before leaving, you check your calendar and there are no meetings in the morning so you decide to sleep in and come in late the next morning. In your mind, there are no potential ethical problems; you have completed the project, and there is no pressing need for you to be in the office when it opens. For a variety of reasons (possibly because you were tired or you were just unaware that there may be other work waiting), you didn’t consider the negative impact your decision could have on other employees who might need to talk to you in the morning so they could finish their projects or tasks. Your unanticipated lateness impacts their work schedules. You did not think coming in late was an ethical dilemma, but others, particularly those harmed by your behavior, did.

Some choices are obviously right or wrong, whereas others are questionable. Ethical analysis considers all aspects of an action sequence. An **action sequence** consists of the motivation behind the act, the act itself, and the consequences of the act. Acts are morally neutral. For instance, there is nothing inherently right or wrong with a manager speaking to an employee. However, the motivation leading to the act and the consequences of the act carry ethical weight. In this sense, actions and behaviors are surrounded, or sandwiched, by ethics.

An ideal ethical situation is one in which a person has good motives and the act results in good consequences. When this alignment occurs, people often do not realize the act is an ethical issue, such as helping a colleague after you are caught up with your own work tasks. At the other extreme, the most unethical situation is one in which a person has bad motives and the act results in bad consequences, such as deliberately lying about a coworker's performance because you want the coworker to be undeservedly fired. Many action sequences fall between these two ethical extremes, when just motives or consequences fall short of the ideal.

Sometimes, good motives can generate bad consequences. Trying to help a colleague perform one task, for example, might distract the person from meeting an important deadline. Sometimes, bad motives can generate good consequences. An employee's selfish refusal to assist an annoying colleague may result in the colleague obtaining assistance from an even more qualified person.

When evaluating these less-than ethically ideal situations, some people place greater ethical weight on having proper motives, such as **idealists**, whereas others place greater weight on achieving favorable outcomes (**consequentialists**) or on the practical and real-world application of results (**pragmatists**).

The Impact on Every Aspect of Business

Within a company, different operational areas struggle with ethical issues. Gender and racial discrimination can occur in dealings with suppliers, employees, customers, the government, or the public at any level of the organization—board of directors, executives, middle managers, staff, or production employees—and in any department (e.g., accounting, finance, human resources, or marketing). Maintaining confidentiality, for example, is an ethical issue for executives engaged in secretive high-level negotiations, for secretaries who maintain their schedules, and for custodians or janitors who clean their offices.

Middle-level managers must balance productivity demands from superiors and job and resource limitations. In one study, 25% of middle managers admitted to having written a fraudulent internal report.² Usually this is done because they were directed to do so by superiors or to avoid appearing incompetent. The pressure to accomplish “more with less” is particularly stressful during economic downturns, when layoff survivors are asked to pick up the responsibilities of those dismissed without reducing their other work tasks.

The most economically vulnerable employees are low-wage workers. Wage theft refers to not paying employees a minimum wage or overtime as agreed upon. This disproportionately impacts low-wage workers. An estimated 2.4 million workers in the 10 most populous states experience wage theft. In 2023, the U.S. Department of Labor's Wage and Hour Division recovered \$274 million to resolve wage and hour claims.³ At the national level, this amounts to \$15 billion in lost wages.⁴

Ethics in Action

Starbucks' *Global Impact Report*

Starbucks strives to be a leader among ethical organizations by recognizing and responding to ethical issues at work. Its core mission is to “inspire and nurture the human spirit” among employees, customers, suppliers, and community members. Starbucks' 2023 *Global Impact Report* summarizes its socially responsible outcomes in sustainability, strengthening communities, and creating opportunities, including where it is falling short of its goals (see Table 1.1 for examples).⁵

Table 1.1 ■ Starbucks' 2023 *Global Impact Report*

Our Farmer Promise	
Goal	Progress
100% ethically sourced coffee	99.7% of coffee (650 million pounds) was ethically sourced through C.A.F.E. (Coffee and Farmer Equity) practices
Invest \$100 million in farmer loans by 2025	Invested \$80.8 million in farmer loans since the program inception, and \$65.8 million since FY 18
Starbucks customer packaging will be sourced from 50% recycled material by 2023	24% was made from recycled material in FY 23
100% renewable electricity for global operations by 2020	77% renewable electricity use globally (100% at company-owned facilities in the U.S. and Canada)
Our Community Promise	
Goal	Progress
100% completion of harassment prevention training in U.S. and Canada	99% completion rate in FY 23
Our Partner Promise	
Goal	Progress
At least 55% women in all retail roles by 2025	52% of regional vice presidents, 51% of regional directors, 60% of district managers are women as of FY 23
At least 40% People of Color in all retail roles by 2025	38% of regional vice presidents, 37% of regional directors, 36% of district managers are People of Color as of FY 23
Graduate 25,000 Starbucks partners from Arizona State University by 2025	Approximately 11,400 graduates and more than 23,400 partners enrolled as of the end of FY 23

So, what is the extent of unethical risk in industry?

Ethical Issues in Professions and Industries

Every profession and industry experiences unique and common ethical problems that must be managed. For instance, sometimes accountants are pressured to overreport revenue to impress investors but underreport revenue to minimize taxable income.

Claiming unearned billable hours is an issue in many professions, including law, consulting, and accounting. To maximize profits and obtain partner status, these professionals are rewarded for charging as many hours as possible to clients. This has led to charging clients for services not rendered; to delaying the conclusion of a case or project; and to performing meaningless, yet billable, services.⁶ One egregious case involved a lawyer charging a client 3,500 billable hours for one year's work, which averages out to almost 10 hours a day, 7 days a week, every week of the year.⁷

Public relations and sales are two professions in which employees experience significant pressure to alter the truth. A survey of 1,700 public relations executives found that 25% of them lied on the job, and 39% exaggerated the truth.⁸ A survey of sales and marketing representatives revealed that 79% heard a salesperson make an unrealistic promise on a sales call, and 78% caught a competitor lying about his or her company's products or services.

Many of the problems associated with managing morally imperfect employees and unethical behaviors are more, not less, prominent for small businesses. Just 4 years after new federal sentencing guidelines went into effect, 56% of the businesses prosecuted had fewer than 20 employees.⁹

The appendix has a list of common ethical considerations in various business industries, including accounting, finance, human resources, marketing, and small business.

The Extent of Unethical Behaviors

Every organization and every profession experiences ethical and unethical behaviors. What is the extent of unethical behaviors at work? The Ethics & Compliance Initiative (ECI) has been conducting business ethics survey research since 1994. In 2023, among the ECI worldwide survey participants, only 13% reported their organization has a strong ethical culture, with another 39% saying they had a "strong leaning" culture.¹⁰ The remaining 48% said the company had a weak or "weak leaning" ethical culture. Five common unethical behaviors observed in business include the following:¹¹

- *Misuse of company time.* Altering time sheets, covering up for someone who shows up late, and conducting personal business on company time.
- *Abusive behavior.* Using one's position or power to mistreat others and create a hostile work environment.
- *Employee theft.* Taking products, not recording sales to friends, and manipulating expense reimbursements.
- *Lying to employees.* Purposely misleading other employees or trying to avoid an uncomfortable interaction.
- *Violating company internet policies.* Surfing the internet and checking social media accounts instead of working.

Even more troubling, 46% of the global respondents suffered from retaliation after reporting unethical behavior.¹² The ECI survey notes that organizations can put programs in place to optimize ethical behavior, yet only 30% of employees surveyed said that their organizations had even basic programs.¹³

Other unethical practices include misleading consumers, manipulating financial statements, using customer data inappropriately (or failing to protect customer data), and harassment of staff.¹⁴ From fiscal year 2019 through fiscal year 2023, the Equal Employment Opportunity Commission (EEOC) received 71,935 sex-based harassment charges, with a yearly high of 14,195 in fiscal year 2023.¹⁵ Sexual harassment reports come from a variety of industries, with hospitality, manufacturing, healthcare, entertainment, and the tech industries regularly listed as having high rates.¹⁶ The next section looks at some costs associated with these unethical behaviors.

Costs Associated With Unethical Behaviors

1.2 Describe how unethical behaviors can be very costly to organizations.

Managers often underestimate the costs associated with unethical behaviors, which include legal costs, employee theft, recruitment and turnover costs, monitoring costs, reputation costs, and abusive treatment costs.

Legal Costs

Lawsuits are one of the most easily quantifiable costs associated with unethical behavior. Sometimes it can take years before the legal costs for unethical behavior end.

The worst financial crisis since the 1930s Great Depression began in 2007 when financial institutions took excessive risks by issuing mortgages to borrowers with poor credit scores and a high likelihood that they would not be able to pay those loans. By 2018, financial companies had paid a staggering \$243 billion to settle mortgage-related lawsuits.¹⁷ Bank of America settlements totaled \$76 billion, followed by JPMorgan Chase at \$44 billion and Citigroup at \$19 billion.¹⁸

In another situation, pharmaceutical company Johnson & Johnson and several pharmaceutical distributors entered into a multi-state settlement to pay \$26 billion to settle claims against them for manufacturing and distributing opioids that led to an opioid epidemic.¹⁹ Six states did not join that settlement, and in January, 2024, Johnson & Johnson agreed to pay one of those states, Washington, \$149.5 million in settlement of its claims.²⁰

Even if a product is legal, a company can be held liable for wrongdoing. Despite smoking being legal, tobacco companies and state attorneys general reached a \$368.5 billion settlement in 1997 for lawsuits filed to pay Medicare costs for treating sick smokers.²¹ Lawsuits continue to be filed and settled every year. The Centers for Disease Control and Prevention reports that 7 million people worldwide, including 480,000 million in the United States, die from smoking.²² Some cases take years of litigation with financial judgments unpredictable. In 2014, a jury awarded Judith Berger, a smoker since age 14, \$27 million, \$20 million of which was for punitive damages.²³ In 2019, a U.S. district judge reaffirmed the original \$27 million award against Philip Morris. Even safer legal means of nicotine intake, such as electronic cigarettes, are now subjected to lawsuits.

Employee Theft Costs

Employee theft represents a measurable cost as well. Employees may steal money, office supplies, inventory, or time. Theft-related costs that are individually minimal—sending personal emails, conducting personal internet searches, and making personal phone calls on company time—become substantial when aggregated across an entire workforce. For instance, the U.S.

Department of Interior calculated that employee nonwork-related internet usage costs taxpayers \$2 million and a loss of 104,221 work hours annually.²⁴

Nationwide, the U.S. Chamber of Commerce estimates that employee theft costs companies \$20 billion to \$40 billion a year. They report that 75%, or three out of every four employees, have stolen from their employer at least once.²⁵ These thefts contribute up to 30% of business failures. The most common thefts are through check tampering, payroll fraud, billing fraud, and expense padding.

The Annual Retail Theft Survey monitors theft at 26 large retail store chains representing 22,182 stores and reports that over 44,834 employees were caught stealing \$50 million of product in 2022.²⁶ The Association of Certified Fraud Examiners (ACFE) estimates that companies lose 5% of their annual revenue to fraud.²⁷ ACFE analyzed 1,921 fraud cases their examiners investigated in 138 countries that took place in 2022 and 2023.²⁸ Accumulated losses totaled \$3.1 billion.²⁹ Loss cases were distributed fairly evenly based on the size of the company, but small businesses (under 100 employees) made up 21% of the cases with a median loss of \$141,000.³⁰ Businesses between 100 and 999 employees made up another 22%, with a median loss of \$130,000.³¹

Monitoring Costs

Once an organization finds unethical behavior, that organization must incur monitoring costs to ensure that the behavior is not repeated. This might include heightened supervision and increased scrutiny by clients, auditors, or government regulators. JPMorgan Chase spent more than \$730 million over 3 years to hire 2,500 compliance employees and install other compliance features.³²

In the construction industry, theft of equipment and raw materials leads to increased costs of electronic surveillance and monitoring. In addition, a history in that industry of artificially high cost estimates in bids for projects, as well as ethical issues with the supply chain, requires extra scrutiny of key constituents, more verification of cost estimates, and more intense oversight of work.

Reputation Costs

An organization's reputation is one of its most important assets. Reputation accounts for up to 63% of a company's market value.³³ Employees, customers, and investors consider organizational reputation when making employment and purchasing decisions. In one survey, even if unemployed, 69% of Americans would still not take a job offer from a company with an unethical reputation.³⁴ An organization's reputation can be severely damaged by accusations of unethical behavior that appear in the media or when customers register complaints with the Better Business Bureau.

In a 2023 Gallup poll, respondents were asked to assess whether a profession had "very high" or "high" ethical standards. A higher score correlates to a higher ethical standard. The following occupations scored as follows:³⁵

- Nurses: 78%
- Bankers: 28%
- Business executives: 20%
- Stockbrokers: 14%
- Insurance salespeople: 13%
- Car salespeople: 9%

The most direct reputation cost is lost business. In 2016, after Wells Fargo's fraudulent customer accounts surfaced, applications for credit cards and checking accounts decreased significantly, and the Better Business Bureau dropped the bank's accreditation.³⁶

Organizations behaving unethically tend to underestimate the likelihood of being caught and the additional costs incurred. Many do get caught, resulting in damaged reputations and unbudgeted legal costs. A now classic example is the Volkswagen (VW) emissions scandal involving a new "clean diesel" environmentally friendly car, advertised as achieving high miles per gallon and low emissions while maintaining quick acceleration and other high-performance driving features. Engineers were unable to design the car to get both high-performance driving features and low emissions. Thus, they developed a software program that would turn on the pollution controls only when being tested by regulators.³⁷ From 2008 to 2015, the software, called a "defeat device," was secretly installed on about 12 million VW diesel cars sold worldwide, including 580,000 sold in the United States.

In 2014, a small team of university-based car emission test researchers in the United States detected the cheating. Volkswagen executives lied to government regulators investigating their findings. In the final "Statement of Facts" agreed to by VW, the problem was attributed companywide, not just to a few renegade engineers. The illegal defeat device and its cover-up involved "high-ranking executives, compliance managers, engineers, quality control experts, software specialists, and in-house lawyers."³⁸ The unplanned fallout: VW's stock price declined 30%, and an onslaught of lawsuits ensued. VW paid more than \$20 billion in fines and other costs as part of a settlement with the U.S. Department of Justice.³⁹ VW's CEO and other managers were forced to resign, some were indicted, and VW's reputation was severely tarnished.

Abusive Treatment Costs

Abusive supervision affects approximately 13% of U.S. workers.⁴⁰ Costs in absenteeism, health-care costs, and lost productivity have been estimated to be \$23.8 billion annually. Employees managed by an abusive boss respond in a variety of ways that result in additional company costs. Some employees pass the abuse they incur on to others, such as colleagues, subordinates, or customers requesting help. Others "get even" by stealing money and products or they work less diligently when the abusive supervisor is not closely monitoring their activities. Disgruntled current and former employees express their negative views on internet blogs and community forums, and sabotage customer relations.⁴¹

Customers mistreated by a belligerent manager or employee also have a variety of ways to "get even." The most prevalent predictor of healthcare lawsuits is not the doctor's skills or training but the quality of the relationship between doctor and patient.⁴² Potential litigants tend not to sue doctors they like.

In France, abusive management behaviors have led to a new classification of criminal behavior called "institutional moral harassment."⁴³ In the mid-2000s, Orange, a French telecommunications company, wanted to lay off 22,000 of its 120,000 workers due to a \$50 billion debt but couldn't because of civil servant job protections. Upper-level managers decided to make the work environment miserable so workers would voluntarily leave. Unexpectedly, 35 overstressed workers died by suicide by hanging; jumping out of windows, off bridges, and in front of trains; and setting themselves on fire. Three company executives, including the CEO and human resources director, were found guilty of institutional moral harassment, fined \$16,000, and sentenced to 4 months in jail. The company was also fined the maximum allowed under current law, \$83,000.

Recruitment and Turnover Costs

Unethical organizations incur greater costs recruiting employees, customers, suppliers, and investors and must provide some premium to stakeholders to offset their ethical deficiencies. Once recruited, these relationships are often short lived, resulting in high turnover among employees, customers, suppliers, and investors.

About 80% of surveyed Americans and Canadians believe it is important to work for a company that has values consistent with the workers' values, and 50% of those surveyed said they would quit because they disagreed with their employer's values.⁴⁴

Some leaders possess a narrow "bottom-line mentality." Followers of these leaders are likely to support unethical pro-leader behaviors that further the interests of leaders but violate ethical norms.⁴⁵ The ethical violations include falsifying numbers for their boss, covering up for misbehaviors, withholding negative information, and misleading others. These behaviors contribute to higher turnover.

Employee Benefits News reports that costs associated with turnover are equivalent to 33% of an employee's annual salary.⁴⁶ These costs include the following:⁴⁷

- Recruiting costs (recruiter fees, advertising)
- Interview costs (candidate travel, staff time)
- Post-interview costs (reference and screening checks, pre-employment skills tests)
- Employment costs (relocation expenses, signing bonuses)
- Training costs (training materials, staff time)

Competitive Advantages of Ethical Organizations

1.3 Explain the competitive advantages of creating and maintaining an ethical organization.

Whereas unethical behavior has a negative impact on organizational operations, ethical and socially responsible behavior can have positive impacts on an organization's bottom line. A growing amount of research on organizational performance has shifted the theoretical debate from choosing between ethical performance and financial performance to choosing ethical performance because of its contributions to financial performance.

A meta-analysis of studies examining the relationship between corporate social responsibility and corporate financial performance concluded that there was a positive causal relationship between the two, particularly in developed nations.⁴⁸ In 2015, the Great Place to Work Institute found that, compared with their peers, the 100 firms with the most ethical culture had nearly a 300% greater stock price growth.⁴⁹ And a 2021 report found that the Fortune "100 Best Companies to Work For" outperformed the market by over 16% in 2020.⁵⁰

How much ethics enhances financial performance depends on a wide range of issues. For instance, bankruptcy of a major customer and other market factors can overwhelm the financial benefits associated with being ethical. The linkage between social performance and

financial performance is multifaceted; ethical organizations, compared with unethical organizations, are more likely to

- Attract and retain high-quality employees
- Attract and retain high-quality customers
- Attract and retain high-quality suppliers
- Attract and retain high-quality investors
- Earn goodwill with community members and government officials
- Obtain greater trustworthy information for decision-making
- Offer higher product and service quality
- Obtain higher levels of employee productivity
- Incur less employee theft
- Require less employee supervision
- Enjoy increased flexibility from stakeholders in times of emergency

Job applicants demonstrate a strong commitment to working for ethical employers. Ethical organizations, compared with unethical organizations, are more likely to attract high-quality employees, have higher levels of employee satisfaction, and have greater employee commitment to both the organization and product or service quality.⁵¹ Ethical climate is related positively to job satisfaction and negatively to workplace isolation.

If the pay is similar, job candidates consistently choose the ethical organization rather than the unethical organization. In one survey, 50% of respondents said they would not work for a company with a bad reputation, even for a pay increase.⁵² At the same time, 84% of respondents say the reputation of the company is important.⁵³

The desire to obtain employment with ethical organizations is particularly strong among millennials, who make up half the workforce. In the Deloitte 2024 Gen Z and millennial survey, 50% of Gen Z and 43% of millennials reported rejecting an assignment or project based on their personal values, and between 40% and 44% of the two groups rejected an employment offer for that reason.⁵⁴

Customers show a similar preference for ethical companies. A stellar ethical reputation is priceless marketing and leads to higher levels of customer satisfaction and loyalty. When product price and quality are similar, potential customers consistently choose the ethical organization over the unethical organization. A consumer survey found that 70% of Americans had not purchased a company's product because of its questionable ethics, and 72% were willing to pay a modest premium for products and services supplied by an ethical company.⁵⁵ An unethical organization wins out over an ethical organization only if its prices are substantially lower.

Another survey showed that 74% of Gen Z and millennial consumers will boycott a brand that does not align with their personal values.⁵⁶ More specific responses said that they would boycott a company with a reputation for mistreating or underpaying employees (61%), that is considered corrupt (58%), or that is associated with racism or has a reputation for problems with inclusivity.⁵⁷

The same commitment to ethics exists in the supply chain. An ethical organization attracts high-quality suppliers and has higher levels of supplier satisfaction and loyalty. Potential

suppliers consistently choose to sell to the ethical organization that pays a fair price rather than to the unethical organization. Suppliers depend on their customers to pay their bills on time and prefer to partner with customers they trust.

Likewise, investors seek out companies with ethical reputations. Long-term investors are attracted to ethical organizations, which leads to higher levels of investor satisfaction and loyalty. If anticipated return on investment (ROI) is similar, potential lenders and investors consistently choose the ethical organization rather than the unethical organization. Investors are drawn to organizations that adopt best practices in corporate governance.⁵⁸ They respond favorably when new accounting laws requiring financial transparency, such as the Sarbanes-Oxley Act of 2002, are legislated. In addition, banks charge lower interest rates to organizations with higher levels of institutional social performance mechanisms.⁵⁹

Local governments and communities consider ethical organizations better citizens. These organizations honestly communicate with stakeholders and pay their fair share of taxes. In return, ethical organizations earn the respect of and gain access to community leaders and government officials. When problems arise between a company and powerful constituency groups, politicians are more likely to provide a sympathetic perspective to the company if it has a stellar community service reputation.

In addition, ethical organizations achieve a host of secondary performance benefits because they attract high-quality employees and are trusted by customers, suppliers, investors, and government officials.

Managers can make better-informed decisions when they know the information supplied by others is trustworthy. The honest flow of ideas and high levels of employee loyalty, commitment, and satisfaction in ethical organizations result in better-quality consumer products and services, higher levels of employee productivity, less employee theft, and less need for employee supervision. In addition, stakeholders are more likely to be flexible in their interactions with ethical organizations.

Given the costs associated with unethical behavior and the potential strategic benefits of running an ethical company, why then do good people and good companies make unethical decisions?

Why Do Good People Behave Unethically?

1.4 Discuss why good people occasionally behave unethically.

Most people, including employees, are good and want to make ethical decisions. Nonetheless, good people occasionally make ethical mistakes, which can be costly for an organization. This text places an emphasis on setting personnel up to make the right choices and on setting up processes and procedures to reinforce the likelihood of personnel making good choices.

Good people occasionally behave unethically for four general reasons:

- The person may not have intended the unethical outcome.
- The person may have chosen one set of values over a competing set of values.
- The person may justify the unethical behavior based on a compelling reason.
- The person may choose not to prevent an unethical behavior for compelling reasons, such as fear of being fired or retaliation.

Unintended Unethical Behaviors

Unintended unethical behaviors could result from insufficient knowledge, situational ambiguity, or a misaligned management system.⁶⁰

Sometimes a person may have good motives but insufficient knowledge or awareness. For instance, the manager of a retail clothing store may generously donate unsold clothing to Goodwill to assist people in need. The used clothing is then sold in bulk by a Goodwill agent to unlicensed street vendors in San Salvador. As a result, legitimate small retailers in San Salvador, who cannot compete on price with the illegal street vendors, go bankrupt. The manager donating the clothing did not intend to bankrupt the San Salvador retailer, but that is the action sequence consequence.

Sometimes the ethics of a situation are ambiguous or complex. Assume a colleague is obviously overwhelmed by work deadlines that, if not met, could result in being terminated. Should you proactively take on some of the colleague's work, ask others to assist, or do nothing? Assisting may seem to be the ethical response. Indeed, the colleague may accuse you of being unethical for not providing the necessary assistance. However, many contextual issues must be considered before reaching a quick moral judgment. Assisting could be unethical if the work you set aside is even more important or if your assistance makes the matter worse because you lack adequate skills or knowledge.

Last, the unintended unethical behavioral outcome could result from a misaligned management system rather than the fault of a particular employee. Managers seek to maximize profit for the well-being of the company. Managers may be able to achieve higher sales and profits by using extravagant packaging and junk mail marketing. The manager does not intend to reduce the quality of life for future generations by contributing to landfill scarcity and climate change, but that is the action sequence consequence.

Choosing Between Competing Values

Sometimes the decision maker must choose between two competing values, both of which are morally appropriate. Rushworth Kidder notes, "The *really* tough choices, then, don't center upon right versus wrong. They involve right versus right."⁶¹

Kidder identifies four types of ethical dilemmas associated with competing values:

- *Truth versus loyalty.* A manager may possess confidential information that could negatively impact another employee. The soon-to-be affected employee asks the manager about the confidential information. Should the manager tell the truth to the employee or maintain loyalty to the company by not sharing the confidential information?
- *Individual versus community.* A company may have a scarce resource, such as a printer. Should the scarce resource be given to the one person who could most benefit from it or made available to everyone in the work group?
- *Short term versus long term.* An employee's future progress in an organization may depend on earning an MBA degree outside of business hours. The employee also has two young children who need care. Should the employee focus on immediate family needs or enroll in an MBA program that would financially benefit the family in the long term?
- *Justice versus mercy.* An accomplished and well-respected employee violated company policy. The company's policy violation standards state that any employee violating the policy must be terminated. Should the manager uphold the policy and exercise justice by firing the accomplished and well-respected employee or forgive the employee's mistake and benefit from the company's investment in the talented employee?

All four types of ethical dilemmas represent hard choices in which an aggrieved party can claim that the decision maker has behaved unethically even though the decision maker thoughtfully made what he or she considered an ethical decision.

Intentional Unethical Behaviors

People provide a wide range of justifications for behaving unethically. The most basic reason is to avoid punishment and receive praise. A salesperson, for example, may declare more sales than actually achieved in a month to obtain a bonus or avoid being fired. Or the salesperson may offer an even nobler justification, such as helping the work unit or organization meet its goals. In either case, the salesperson performed a cost–benefit analysis and concluded that the benefits of behaving unethically outweighed the costs.

Similar rationale can be applied by employees in any type of organization or profession. In East Lake County, Florida, the number of books checked out of the library was being monitored with the intent of removing those not used for a long time.⁶² The library’s supervisor schemed with another employee to keep the shelves well stocked to avoid having to later repurchase discarded books. They created a fictitious library user and checked out 2,361 books under the fake patron’s name over a 9-month period, until caught. The ends, a well-stocked library, justify the means, lying about user book use.

Likewise, managers sometimes use war metaphors to justify intentional unethical behaviors. The organization is at war with its competitors, regulators, suppliers, and even customers. In this dog-eat-dog, survival-of-the-fittest environment, success requires that one must do bad to others before or because they (will) do bad to you. Employees are expected to be loyal to their superiors during these battles. The 2023 Ethics and Compliance Initiative Survey shows 28% of employees report pressure to compromise standards, down in 2023 from the all-time high of 29% in 2020.⁶³

Stanley Milgram, a professor of social psychology, conducted a series of troubling social experiments in the 1960s to demonstrate how good people are capable of physically harming others if directed to do so by someone in authority willing to take responsibility for the act.⁶⁴ Residents of New Haven, Connecticut, were recruited as participants for a learning experiment designed by the Yale University Psychology Department. They were instructed by a researcher wearing a scientific laboratory coat to administer a shock to a learner strapped in an electric chair by pressing a switch on a shock generator machine every time the learner gave an incorrect answer. The punishment level was increased by 15 volts after each subsequent wrong answer, up to a total of 450 volts. The shock generator machine’s control panel clearly labeled 195 volts as “very strong shock,” 255 volts as “intense shock,” 315 volts as “extreme intensity shock,” and 375 volts as “danger: severe shock.”

Unknown to the participants, the learner faked being hurt by the shocks. The learner began complaining about pain from the shocks at 120 volts, demanded the experiment end after 150 volts, and let out agonizing screams at 270 volts. If a participant hesitated to administer the next level of shock following a wrong answer, the researcher directed the participant to continue. The results: 65% of the 40 participants proceeded, at 15-volt increments of increasing severity, to the maximum 450 volts of punishment despite the learner’s agonizing pleas to stop. During the post-experiment debriefing, participants reported they continued to obey the experimenter’s commands even though their own consciences urged them to stop physically harming the learner.

Failure to Report Unethical Behaviors

Why would a good person remain silent about unethical activities at work? In-depth interviews with 40 employees revealed that 85% of them had not raised an important issue or concern to

their bosses on at least one occasion. The top reasons for not informing a manager about unethical behaviors were the following:⁶⁵

- Belief that no action would be taken (26%)
- Fear of retaliation or punishment from the person committing the unethical act (21%)
- Prior bad experience(s) reporting behavior (10%)
- Lack of clarity if the behavior was unethical or a violation (9%)

Failure to report unethical behavior can be costly in lives as well as money. In 2001, General Motors (GM) engineers first detected an ignition switch defect during preproduction testing of the Saturn Ion and recognized the same defect 3 years later in the Chevrolet Cobalt.⁶⁶ An engineer recommended redesigning the switch in 2005, but upper management advised against it because of costs. A few months later, the first fatality associated with the defect occurred. Without informing management, the switch engineer then redesigned the ignition switch.

Although the engineer's unapproved change was admirable, defective models remained on the road. By 2013, GM attributed at least 13 deaths and 31 crashes to the ignition switch defect. In 2014, a few weeks after a new CEO was hired, GM finally notified government regulators that the defect existed in 619,122 cars. A series of recalls was initiated, totaling 30 million cars worldwide. GM was initially fined \$35 million for the delay in reporting the problem. Litigation by victims led to GM setting aside \$625 million in victim compensation. By 2016, GM had paid more than \$6 billion in fines, lawsuit settlements, and recall costs, with additional litigation costs mounting.⁶⁷ When questioned by the media about those who died, the engineer broke down and cried, and then defended his actions by saying, "I did my job the best I could."⁶⁸

Organizational leadership has an obligation to help employees make ethical decisions. The next section introduces a model to help organizations improve ethical decision-making through thoughtful processes and procedures.

Building an Ethical Culture and the Ethical Systems Model

1.5 Apply the Ethical Systems Model to create a high-integrity work culture.

This section outlines how to use and implement the Ethical Systems Model to create a culture of high integrity and ethical mindedness.

A High-Integrity Work Culture

The costs of unethical behavior and the potential strategic advantages of having a good ethical reputation highlight the importance of developing a high-integrity work culture. As Ben Franklin noted at the time of the 1787 Constitutional Convention, "There are two passions which have a powerful influence in the affairs of men. These are ambition and avarice; the love of power and the love of money . . . when united in view of the same object, they have in many minds the most violent effects."⁶⁹

In the business arena, the pursuit of power and wealth needs to occur within ethical boundaries to avoid the business tragedies that appear daily in the media. A work culture narrowly

focused on revenue and wealth generation often fosters behaviors that cut ethical corners and demonstrate a lack of concern about the feelings and welfare of others.

Greed is exemplified by the 30-year-old Wall Street broker who noted, “My bonus was \$3.6 million—and I was angry because it wasn’t big enough.”⁷⁰ Such attitudes can corrupt an organization and industry. A survey of 250 Wall Street insiders reported that 52% “believed it was likely that their competitors have engaged in illegal or unethical activity to be successful,” and 26% “believed the compensation plans or bonus structures in place at their companies incentivize employees to compromise ethical standards or violate the law.”⁷¹

The degree to which ethics matters during the pursuit of profits shapes and forms an organization’s culture. An organization’s culture can inspire and reinforce either ethical or unethical workplace behaviors. According to Ethical Systems, “creating and sustaining a strong ethical culture is fundamental to creating an organization that supports people making good ethical decisions and behaving ethically every day.”⁷²

What is organizational culture? An **organizational culture** is the collection of values, policies, rules, and traditions that influence decision-making, priorities, and behavior in an organization.

Edgar Schein identified three distinct components of organizational culture: (1) artifacts and behaviors, (2) espoused values, and (3) assumptions.⁷³ Assumptions about work and people generate values, which are then represented by artifacts, such as symbols and behaviors. An organization’s culture signals to stakeholders what matters.

Some organizations place a strong emphasis on developing a work culture based on ethics, but others do not. As was noted earlier in this chapter, the 2023 ECI Global Business Ethics Survey[®] found that 48% said the company had a weak or “weak leaning” ethical culture.⁷⁴ The good news is that 52% of the companies had strong-leaning or strong ethical cultures.⁷⁵

How do organizations signal to employees and other stakeholders that ethics matter? In a follow-up study, high-quality ethics and compliance (E&C) programs were found to exhibit the following key attributes and examples:⁷⁶

1. *Strategy*: E&C is central to the organization’s business strategy:
 - E&C objectives are included in the organization’s strategy.
 - Senior leaders champion the importance of E&C throughout the organization.
 - Communications by senior leaders highlight E&C practices.
 - E&C best practices used within the organization are shared externally, positioning the organization as a thought leader.
2. *Risk management*: E&C risks are identified, owned, managed, and mitigated.
 - Senior leaders identify and mitigate risks related to E&C.
 - Senior leaders have a good understanding of key E&C risks.
 - There is a good understanding of key E&C risks across the organization.
 - Metrics are used to detect areas that may require intervention.
3. *Culture*: Leaders at all levels across the organization build and sustain a culture of integrity.
 - The organization has defined the ethical behavior expected from leaders.
 - Senior leaders set a good example of integrity (“walk the talk”).
 - Performance reviews of senior leaders take into consideration their efforts to build and sustain a strong ethics culture.
 - All employees are expected to act in line with the organization’s values and are held accountable if they do not.

4. *Speaking up*: The organization encourages, protects, and values the reporting of concerns and suspected wrongdoing:
 - There are multiple ways for employees to report misconduct.
 - All reporters are treated the same, with consistency and fairness, throughout the reporting process.
 - Leaders receive training to make them aware of the organization's policy on retaliation.
 - The organization openly communicates summary statistics with all employees about reported misconduct.
5. *Accountability*: The organization holds itself accountable when wrongdoing occurs:
 - The organization's code of conduct makes it clear that ethics violations will result in consequences.
 - The organization has a clear policy regarding response and escalation of significant ethics violations.
 - Senior leadership reinforces that consequences will occur for ethics violations.
 - Consistent disciplinary action is taken when ethics violations are substantiated.

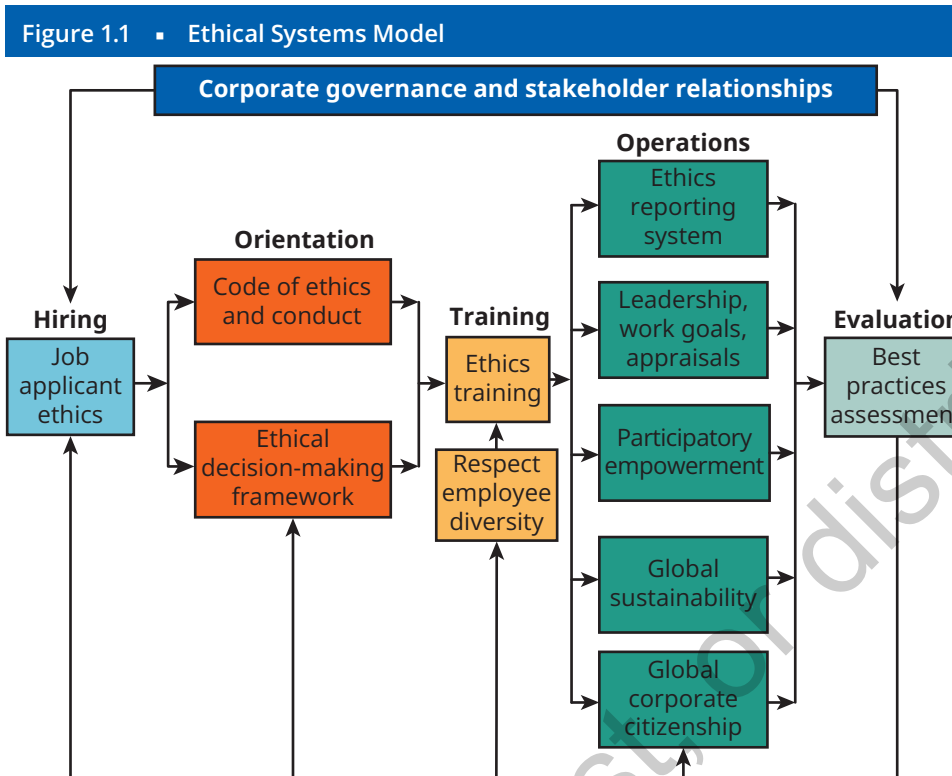
The Ethical Systems Model

Successful long-term organizational growth requires honesty, trust, integrity, and credibility. Current and future managers must learn how to design and manage a high-integrity work culture. Ethical behaviors are not just a matter of individual choice; they are associated with an organization's ethics culture and support system. The greater the number of ethics program components in place, the fewer unethical behaviors are observed.⁷⁷

How can managers create a strong ethics culture that simultaneously enhances employee and organizational performance, profits, and ethics rather than just respond to the latest ethical crisis? The **Ethical Systems Model**, presented in Figure 1.1, synthesizes some best practices into a systematic framework for reinforcing ethical behaviors and reducing ethical risks throughout the workplace. This framework helps managers and leaders address ethics from the point of hiring new employees, through implementing trainings, policies, and procedures to continue to encourage ethical behavior.

Creating and sustaining a high-integrity work culture can be achieved through the multiple interdependent support systems in the Ethical Systems Model. The best practices for each dimension in the model are explained in Chapters 2 through 12:

- Ethical Decision-Making (Chapter 2)
- Organizational Governance and Stakeholder Relationships (Chapter 3)
- Hiring Ethical People (Chapter 4)
- Codes of Ethics and Codes of Conduct (Chapter 5)
- Ethics Training (Chapter 6)
- Respecting Employee Diversity (Chapter 7)
- Managers as Ethical Leaders (Chapter 8)
- Ethically Engaging and Empowering Employees (Chapter 9)
- Ethics Reporting Systems (Chapter 10)
- Global Sustainability (Chapter 11)
- Global Corporate Citizenship (Chapter 12)



Implementing the Ethical Systems Model can reduce unethical or illegal behaviors. Individuals, however, remain morally flawed, and ethical problems will still arise. When this happens, investigate the circumstances that led to the unethical or illegal behavior and, depending on the egregiousness of the unethical behavior, discipline or terminate the employee. Such short-term solutions, however, do not address the systematic root of the ethical problem. Why weren't the employee's unethical proclivities detected earlier? Is there a problem with the hiring process, the ethics training workshops, or the performance evaluations? Similar to total quality management, the goal of the Ethical Systems Model is to reduce ethical risks to as close to zero defects as possible.

The total quality management of the ethics process in "Ethical Applications" provides a systematic approach for determining the root cause of an unethical behavior.

Ethical Applications: The Total Quality Management of Ethics

1. Focus on the particular unethical activity of the employee.
2. Instead of merely blaming the particular employee, determine the systematic source that allowed the problem to occur. Did the problem originate from a(n)
 - a. *Corporate governance problem*: Do upper-level managers monitor this area of operations?
 - b. *Hiring process problem*: Was an unethical person hired?
 - c. *Code of ethics or conduct problem*: Do these codes inadequately address the issue?
 - d. *Ethical decision-making framework problem*: Did the employee inadequately apply ethical reasoning to the situation?
 - e. *Ethics training problem*: Does the training program inadequately address the issue?

- f. *Ethics reporting system problem*: Are the mechanisms for raising ethical issues and reporting unethical behaviors inadequate?
 - g. *Manager role model problem*: Is the employee's manager an inadequate role model?
 - h. *Unrealistic work goal problem*: Were the employee's work goals unattainable or misdirected?
 - i. *Performance evaluation problem*: Are performance evaluation measures inadequate?
 - j. *External stakeholder oversight problem*: Did the regulator or professional association inadequately address the issue?
3. Seek input from affected constituents about how to strategically address the problem.
 4. Develop an action plan that includes
 - a. Clearly stated problem
 - b. Initial solution to the problem
 - c. Major obstacles against implementing the solution
 - d. Recommendations for overcoming the obstacles
 - e. Development and monitoring metrics to measure success
 5. Make managers accountable for the results. Senior leaders should set unambiguous objectives and provide the necessary resources and appropriate incentives.

Summary

Well-managed organizations are complex human endeavors. Human participants are constantly making decisions that have ethical implications, whether they are consciously aware of those implications or not. And those decisions impact the ability of organizations to meet their goals, whether they are financial, social, or political goals.

Ignoring ethics in business, or attempting to separate the ethical and moral implications of decisions from the operational focus of decisions, can result in tremendous costs to a company. Those costs may be externally imposed, such as damages in lawsuits, fines from government agencies, or the development of a bad reputation. Those costs may be internally generated, through employee theft or turnover. Alternatively, the development of good ethics in an organization can be a strategic advantage through increased loyalty of employees and customers, higher productivity, and more efficient use of resources.

Organizations can reduce unethical decision-making by addressing the risks and temptations inherent in the decision-making process. Setting up ethics-focused policies, practices, and expectations can create a high-integrity work culture and can increase the success of an organization.

Key Terms

Action sequence
 Consequentialist
 Ethical dilemmas
 Ethical Systems Model
 Ethics
 Idealist

Organizational culture
 Pragmatists
 Separation thesis
 Stakeholder
 Well-managed organization

Chapter Questions

1. How can a well-managed organization reduce or eliminate common types of unethical behaviors in organizations?
2. How can a culture that allows or encourages unethical behavior increase the costs of doing business?
3. How can a company profit from having an ethical business culture?
4. What are the incentives that cause people to behave unethically?
5. How can the Ethical Systems Model help managers reduce unethical behavior?

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Chapter 2

Ethical Decision-Making



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Learning Objectives

- 2.1 Explain the stages of cognitive and moral development.
- 2.2 Compare how the six ethical theories differ from one another.
- 2.3 Identify the different factors within the ethical behavior model.
- 2.4 Apply the systematic rational ethical decision-making process to a business issue, including persuading others to adopt the ethical resolution.

Introduction

What Would You Do? Dismissal and Promotion Politics

About a year after starting work as an information technology (IT) support person with a small company, the company's president and the chief operating officer (COO) invite you out to lunch. When you arrive at the restaurant, you notice they seem to have made an effort to make this meeting secretive; they chose a location far from work and arrived separately, both of which are out of the ordinary. During lunch, they tell you they are really pleased with your work and want to offer you the position of IT manager, your boss's position. You and your boss are the only two people in the department, and you have gotten along well and have enjoyed working with each other.

You are initially shocked by the offer, and they explain that your boss is not meeting their expectations. They plan on firing him in a few weeks, after he completes a major project. They want to offer the job to you first, and, if turned down, they will post the position after your boss is fired. They ask you to keep this knowledge confidential and want an answer within a week.

You have mixed feelings about this opportunity. While it is nice to be respected and offered the promotion, the timing for your boss (and friend) couldn't be worse because he and his wife recently had a child. But since you were told that your boss will be fired either way, you accept the promotion. The president informs you it will be another 3 weeks before the announcement is made.

Going back to work knowing your boss will be fired is incredibly stressful. Your boss believes his job is secure and mentions he plans to begin a costly major home remodeling project next week, which you now know he will not be able to afford due to being dismissed.

Critical Thinking Questions

1. What *could* you do?
2. What *would* you do?
 - a. Break confidence and confidentially tell your boss about his upcoming dismissal
 - b. Don't say anything
 - c. Something else (if so, what?)
3. Why is this the right option to choose?
4. What are the ethics underlying your decision?

Ethical issues are inescapable. In many circumstances, employees must respond quickly to ethical issues and contingency factors as they arise, without time to ponder. For example, assume you are an engineer on a team working under a tight deadline to finish designing a new-model car to be sold next year. The automobile company is depending on the new-model car to enter a new market, which will enable the company to meet challenging sales and profit expectations. All test drivers claim the car is a wonderful drive, and sales projections are phenomenal.

Unfortunately, the car falls short of meeting government emission standards. Your boss requests that your engineering team design software to temporarily cheat the emission tests and then fix the problem in the future. The other team members are willing to do so because upper managers ordered them, and it is for the good of the company.

Would you also agree to work on the project? Should you be loyal to the manager and the team and avoid being ostracized or fired? Some individuals may say yes and some no. Why the different answers? Is one answer right and the other wrong, or is one answer better than the other? Which one? Why? How did you determine that?

This chapter introduces a decision-making system to assist in handling difficult ethical questions. The first section sets a foundation by introducing cognitive and moral development. The terms *ethical* and *moral* are commonly interchangeable and will be throughout this chapter and textbook. This chapter begins with theories of cognitive and moral development. Next, it introduces six major philosophical approaches used in the decision-making process. The next section explores a variety of factors that influence whether a person decides to behave ethically or unethically. The final section of the chapter introduces a systematic rational ethical decision-making process that utilizes these theories and concepts to streamline the decision-making process and work with others to adopt recommendations.

Cognitive and Moral Development

2.1 Explain the stages of cognitive and moral development.

In this section, we examine various theories of cognitive and moral development.

Piaget and Cognitive Development

We are all born into a particular family, neighborhood, and culture that influence our moral judgment. From birth, with a still-developing 3-pound brain, consisting of 100 billion neurons, which houses our thinking process and controls our central nervous system, our brains receive and analyze information and formulate decisions.

With the passage of time, these decisions tend to form a pattern. One particular pattern found among children and adults is a desire to experience pleasure and avoid pain. Newborn babies cry because they feel hunger, anger, or pain and desire to be fed and comforted, which brings them pleasure.¹ Infants are also born with a sense of justice; they smile when good things occur and frown when bad things occur.²

Jean Piaget (1896–1980) was among the first psychologists to outline stages of cognitive development based on patterns he observed in children, including his own.³ Other theories exist, but Piaget is perhaps the most famous and most followed of the cognitive development psychologists.

According to Piaget, during the first 2 years of life, the child has an **egocentric** understanding of the world—the belief that what he or she sees, hears, feels, and thinks is what everyone else sees, hears, feels, and thinks.

At around 18 months, children exhibit self-awareness and feelings of pride, shame, and embarrassment. By 2.5 years of age, the child understands what it means to be good or bad, and by age 3, they can empathize with another child's situation. As the child's conscience forms, the child becomes more capable of self-regulating emotions and behaviors. Mental scripts are developed that enable the child to generalize appropriate behaviors for different situations, such as "If someone helps me, I should say thank you," or "When I grab other children's toys, they get mad, and I should give it back instead of hitting them." As children develop the ability to think through problems, they also develop the ability to apply moral principles to those situations.

Stages of Moral Development

Harvard psychologist **Lawrence Kohlberg** (1927–1987), influenced by the writings of Piaget, studied the *moral* thought process by analyzing how children and adults from different cultures formed moral judgments in response to a series of ethical dilemmas. The most famous is the following hypothetical situation involving Heinz stealing product from a business to save his dying wife. Through extensive research, patterns emerged in how people reasoned through these ethical dilemmas.

In Europe, a woman was near death from a special kind of cancer. There was one drug that doctors thought might save her. It was a form of radium that a druggist in the same town had recently discovered. The drug was expensive to make, but the druggist was charging 10 times what the drug cost him to make. He paid \$2,000 for the radium and charged \$20,000 for a small dose of the drug. The sick woman's husband, Heinz, went to everyone he knew to borrow the money, but he could only get together about \$10,000, which is half of what the druggist was charging. Heinz told the druggist that his wife was dying and asked him to sell it cheaper or let him pay later. But the druggist said, "No, I discovered the drug, and I'm going to make money from it." Heinz got desperate and broke into the man's store to steal the drug for his wife. Should the husband have done that?

Stages of moral development refers to an evolutionary process that describes how individuals morally reason about the rightness or wrongness of events occurring in their lives. Kohlberg and his colleagues found that people sequentially progress through a continuum of six stages of moral development, beginning with egocentric punishment avoidance and culminating at the level of applying universal ethical principles. As shown in Table 2.1, the six stages are subdivided into three levels: preconventional, conventional, and postconventional.

Table 2.1 ■ Stages of Moral Development for Heinz Dilemma

Level	It Is "Right" for Heinz to Steal the Drug Because . . .	It Is "Wrong" for Heinz to Steal the Drug Because . . .
<i>Preconventional level.</i> Moral reasoning is based on what benefits the individual's needs and wants.		
Stage 1: <i>Obedience and punishment orientation.</i> Right is determined by obeying an authority's rules to avoid punishment.	If Heinz lets his wife die, people will blame him for killing her.	Heinz will get caught and be punished.
Stage 2: <i>Instrumental orientation.</i> Right is determined by a selfish desire to obtain rewards and benefits from others. You should be nice to other people so that they will be nice to you.	Heinz needs his wife's companionship, and she will be grateful.	Heinz's wife will probably die soon anyway. Stealing the drug will not do him any good.
<i>Conventional level.</i> Moral reasoning is based on applying a social role or group membership analysis. The interests of other group members must be considered. Moral determination is based on performing good or right roles, pleasing others, and maintaining societal order.		

Level	It Is “Right” for Heinz to Steal the Drug Because . . .	It Is “Wrong” for Heinz to Steal the Drug Because . . .
Stage 3: “ <i>Good boy–nice girl</i> ” orientation. Right is determined by winning the approval and avoiding the disapproval of others. You should be concerned about the feelings of other people and keep loyalty and trust with partners.	A good husband would do everything he can to save his wife’s life.	Heinz’s criminal behavior will bring shame and dishonor to his family.
Stage 4: “ <i>Law-and-order</i> ” orientation. Right is being a dutiful citizen who follows societal rules and maintains social order.	Heinz might be held legally responsible for not saving his wife.	Heinz is breaking the law.
<i>Postconventional level.</i> Moral reasoning is based on applying abstract universal principles. Societal and beyond societal perspectives matter. Moral determination is based on abiding by abstract principles applied to society.		
Stage 5: <i>Social contract orientation.</i> Right is determined by preserving mutually agreed-on human rights and changing unjust laws for the sake of community welfare. Individual freedom should be limited only when such freedom interferes with other people’s freedom.	The wife’s right to life is more important than the pharmacist’s profits.	We would have societal chaos if people who cannot afford products chose to steal them.
Stage 6: <i>Universal ethical principles orientation.</i> Right is determined by following abstract universal ethical principles (such as justice, the Golden Rule, equality, and respect for life). These principles represent a universal consciousness that all humanity should follow.	A universal rule would be “respect for life above all else.”	Universal rules would include, “do not steal,” and “respect the rights and property of others above a selfish desire to save someone.”

Each of the three levels is distinguishable by an individual’s perceived relationship with society’s rules and expectations. At the **preconventional level**, the right thing to do is that which generates personal pleasure and avoids pain. The individual is not perceived as being part of a broad community with rules and regulations. Most children under the age of 9, some adolescents, and some adults (particularly criminals) reason at the preconventional level. All pleasure-seeking pursuits are good until the pain associated with a scolding parent or authority figure outweighs the pleasure.

At the conventional level, the right thing to do is to be a good role model and maintain societal order. Societal roles and agreements matter a great deal to the individual. Most adolescents and adults reason at the **conventional level**, which is why this level is called conventional or ordinary. They want others to perceive them as being good, and they understand the importance of laws for maintaining societal order and peace.

At the **postconventional level**, the right thing to do is to abide by abstract universal ethical principles, such as justice for everyone associated with the issue, that should be the basis of but may conflict with particular societal rules and regulations. Some adults and a few adolescents reason at the postconventional level. They are compelled to follow the dictates of their consciences, which are based on universal ethical principles.

The person may stop progress at any point along these stages. An individual's level of moral reasoning is generally based on the person's age, respect for people at the next higher stage, and moral discomfort. People predominantly apply one stage of moral reasoning, are comfortable applying lower stages, admire people one stage higher, and consider people two stages higher ethically naïve. For instance, a manager who reasons primarily at the Stage 3 "good boy–nice girl" level will occasionally justify actions based on concern for punishment and rewards, admires managers who apply "law-and-order" concerns, and thinks managers concerned about universal human rights are naïve about how businesses operate in the real world.

Moral discomfort plays a key factor in explaining why some adults never progress beyond the preconventional level (Stages 1 and 2), and most adults stop moral reasoning progress at being a good group member (Stage 3) or law-abiding citizen (Stage 4).⁴ If an individual is always content with the conclusions a particular level of moral reasoning generates, then there is little motivation to advance to the next higher sequential stage.

Some people take moral congruity very seriously, identifying strongly with the idea of having a positive and harmonious moral identity, and some do not. **Cognitive dissonance** occurs when an individual holds inconsistent or contradictory attitudes and beliefs, which creates an unpleasant state of mind. Individuals relieve this moral discomfort by reasoning at the next higher stage of moral development, which they admire. For instance, a manager could be comfortable with the conclusions generated using Stage 3 "good boy–nice girl" moral reasoning. The manager observes how other managers behave and adopts their behaviors. If other managers in the company are rewarded for selling faulty products without informing consumers of the potential dangers, then that is what a "good" manager should do.

But one day, the manager may become upset when a customer is seriously harmed by the product, creating cognitive dissonance. The previous moral script the manager followed—do what the other managers do—now creates psychological pain. To ease the pain, the manager might progress to the next higher stage of moral reasoning (Stage 4: "law and order"), which the manager admires, and start informing customers of the potential dangers to avoid litigation, which would generate more psychological peace.

The Six Ethical Theories

2.2 Compare how the six ethical theories differ from one another.

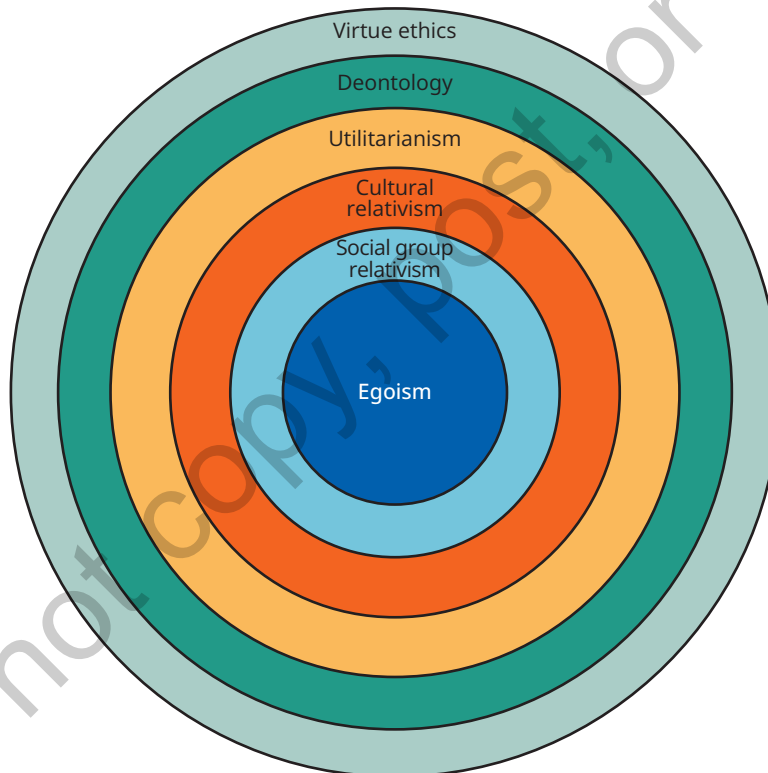
The systematic rational ethical decision-making process presented in this chapter uses six major ethical theories. Those theories are as follows, beginning with the most basic ethical theory (egoism) and ending with the most demanding ones (deontology and virtue ethics):

- *Egoism*: How does the action relate to me? If the action furthers my interests, then it is right. If it conflicts with my interests, then it is wrong.
- *Social group relativism*: How does the action relate to my social group (e.g., peers, friends)? If the action conforms to the social group's norms, then it is right. If it is contrary to the social group's norms, then it is wrong.
- *Cultural relativism*: How does the action relate to the national culture, particularly its laws? If the action conforms to the law, then it is right. If it is contrary to the law, then it is wrong.

- *Utilitarianism*: How does the action relate to everyone affected by it? If the action is beneficial to the greatest number of people affected by it, then it is right. If it is detrimental to the greatest number, then it is wrong.
- *Deontology*: Does the action treat every stakeholder with respect and dignity in all situations? Is the action something that everyone should do? If yes, then it is right. If no, then it is wrong.
- *Virtue ethics*: How would a virtuous person act in this situation? If the act strengthens moral character, then it is right. If it is contrary to moral character building, then it is wrong.

View these six ethical theories as sequential steps on a moral ladder or as six concentric circles (as shown in Figure 2.1), with egoism in the innermost circle, and each additional circle expanding a person's consciousness by considering more stakeholder interests.

Figure 2.1 ■ Ethics Theories as Expanding Consciousness



Egoism

Egoism establishes ethical priority based on an individual's self-interest. When faced with a decision, an egoist asks, "How does the action relate to me? If the action conforms to my interests, it is right. If it is contrary to my interests, it is wrong." Egoists tend to reason as follows: "I strongly believe that x is the best decision because that is my personal preference."

In *Theory of Moral Sentiments* and *Wealth of Nations*, Adam Smith emphasizes that people by nature are egoists.⁵ Egoism is the most basic ethical theory in that individuals naturally make decisions based on their own self-interests. For instance, people have a strong preference for actions that improve their financial and work conditions and an aversion for actions that worsen their financial and work conditions. When an organization policy change is under consideration, employees initially wonder if the policy change will make their work lives more or less burdensome. Being concerned about one's own interests doesn't necessarily mean that a person is selfish. Instead, egoists recognize that decisions and actions affect their lives and that their interests should be considered.

Ayn Rand's novels *The Fountainhead* and *Atlas Shrugged* are among the most engaging articulations of the importance of egoism.⁶ In both novels, individual liberty and self-interest matter a great deal. According to Rand, the best thing for the common good is to become an individual of high integrity willing to pursue one's self-interests at all costs. Rand is critical of people who simply follow the masses for the sake of communal harmony. She also rebels against a paternalistic government whose leaders and bureaucrats assume they know what is best for everyone. Rand proposes an ethic of rugged individualism, whereby individuals stand up for what they believe and learn from their mistakes. Society improves when each person improves his or her own life circumstances.

Organizations need individuals who look after their own interests to ensure that they receive the resources needed to perform their job tasks. As the predominant ethical theory, however, egoism can be problematic for organizations. Many business scandals originate from an employee's love of money or power.⁷

Whose interests matter the most when two people have conflicting interests? In many organizations, individuals must advocate for scarce resources, such as budgets or office space, even though it may be beneficial to the organization if one particular person receives the scarce resource. If egoism is the predominant ethical theory, then the more politically powerful or astute employee gets the scarce resource, possibly to the detriment of organization performance.

Egoists seeking a reasonable solution to conflicts that arise between their interests and the interests of others usually will expand their thinking to include the interests of larger social groups, therefore taking the next step up the moral reasoning ladder.

Social Group Relativism

Social group relativism establishes ethical priority based on a social group's interest. When faced with a decision, a social group relativist asks, "How does the action relate to my social group? If the action conforms to my social group's norms, it is right. If it is contrary to my social group's norms, it is wrong." Social group relativists tend to reason as follows: "I strongly believe that *x* is the best decision because that is what my social group supports."

Humans have lived in groups since the beginning of history. Social group relativists care what their group members think because they share common interests. Wealthy people identify with what is best for the wealthy; poor people identify with what is best for the poor. Associations are formed to more efficiently and effectively represent social group interests. The Chamber of Commerce represents the interests of the business community. Mothers Against Drunk Driving lobbies for alcohol restrictions opposed by the National Beer Wholesalers lobby. Each lobbying group wants public policies that favor or do not damage member interests.

Social group relativism is a common ethical theory in organizations. Managers readily empathize with other managers and want to do what a good manager would do in a particular situation. Nonmanagement employees tend to view things from a nonmanagement employee's perspective, customers from a customer's perspective, suppliers from a supplier's perspective, and

community members from a community member's perspective. Our perspectives are shaped by the groups with which we most identify.

The tendency to interpret situations from a social group's perspective is particularly evident in partisan sports and politics. Fans of a sports team tend to interpret every ambiguous game situation in a way beneficial to their team. In politics, Republicans and Democrats often vote along party lines and risk being ostracized if they vote otherwise.

Organizations need marketing managers who look after the interests of the marketing department and accounting managers who look after the interests of the accounting department. As the predominant ethical theory, however, social group relativism can be problematic for organizations. Social group relativism often leads to double standards: one standard for your group and a different standard for other groups.

Which social group's interests matter the most when two social groups involved in a situation have conflicting interests? In many organizations, just as individuals must advocate for resources, departments also must compete for scarce resources. If social group relativism is the predominant ethical theory, then the more politically powerful or astute department gets the scarce resource, possibly to the detriment of the organization's performance.

Social group relativists seeking a reasonable solution to this dilemma usually will expand their thinking to include the interests of the entire organization or larger society, therefore taking the next step up the moral reasoning ladder.

Cultural Relativism

Cultural relativism establishes ethical priority based on a cultural or legal perspective. When faced with a decision, a cultural relativist asks, "How does the action relate to my national culture, particularly its laws? If the action conforms to the law, it is right. If it is contrary to the law, it is wrong." Cultural relativists tend to reason as follows: "I strongly believe that x is the right thing to do because the law says so."

Associating oneself with the ethical standards embodied within a nation's laws is a more complex method of moral reasoning than is social group relativism. The person perceives himself or herself as a member of a larger society whose members have common interests. A common saying among cultural relativists is, "When in Rome do as the Romans do." This demonstrates tolerance and respect for the practices and policies of the host nation or community.

National laws and norms matter a great deal for cultural relativists. In the United States, laws are established through two distinct processes. First, legislation, passed through Congress or state legislatures and signed by the president or governor, is the result of political parties representing their own group's interests and then, through compromise, reaching a conclusion binding on everyone. Second, law is made through the judicial process, where lawyers present competing perspectives and judges issue interpretations and opinions that are binding on everyone within their jurisdiction.

Cultural relativism is also a rather common ethical theory in organizations. Many managers do not want to break the law, even when doing so might personally benefit them or their company. Managers want to do what is right in the eyes of the legal establishment. When problems arise, they ask company lawyers to provide a legal opinion.

Organizations need managers who are cultural relativists, who will work to ensure that local, state, and federal laws are obeyed. As a predominant ethical theory, however, cultural relativism can be problematic for organizations. Because laws often result from compromise, they do not necessarily reflect the highest ethical positions. For example, organizations may have the legal right to pollute up to a certain amount, but that does not mean it should, particularly if available pollution controls are not burdensome. Other examples are related to wages and working conditions (see Up For Debate).

Up for Debate

Cultural Relativism

Different cultures have different standards on many issues. The Global Living Wage Coalition is an advocacy organization that encourages companies (and countries) to develop a living wage—defined as sufficient compensation to allow for a decent standard of living. With this definition, it seems that employees should receive the same wage for the same work when they are in the same location with the same cost of living. Employers have made arguments that legal immigrant labor should be paid less because they have left families in nations where the standard of living and cost of living are lower than in the United States. This cultural relativistic argument is based on the expectations of the families in the home nation.

Critical Thinking Questions

1. Should businesses be allowed to pay legal immigrant workers lower wages if those workers left families in a nation with lower standards and costs of living?
 - a. Yes, because their standards and costs of living are lower, those legal immigrants don't need to be paid similar wages to U.S. residents with families here.
 - b. No, the legal workers are doing the same job as the local workers and should be paid the same amount.
2. Why is this the right option to choose?
3. What are the ethics underlying your decision?

Cultural relativists seeking a reasonable solution to these dilemmas usually will expand their thinking beyond what is merely legal to consider the impact on different populations, different individual rights, and more ethically aspirational (known as virtuous behavior), which are the three final steps up the moral reasoning ladder. These three ethical theories are aimed at minimizing the most common human biases—a preference for self-interests, group interests, and national interests.⁸

Utilitarianism

Utilitarianism is perhaps the most “business-like” approach, weighing the various positive and negative impacts of alternative solutions on different stakeholders. When faced with a decision, a utilitarian asks, “How does the action relate to everyone affected by it? If it is beneficial to the majority, then it is right. If it is detrimental to the majority, then it is wrong.” Utilitarians tend to reason as follows: “I strongly believe that *x* is the best decision because the consequences benefit the greatest number of people.” With a utilitarian approach, an individual is not just concerned about following national laws but about whether the law is morally justified when the well-being of others is considered.

Utilitarians emphasize the consequences of an action on *all* those affected by it. During the Middle Ages, political and economic policies were legislated that primarily served the interests of the ruling monarch's family. In the 18th and 19th centuries, philosophers Jeremy Bentham⁹ and John Stuart Mill¹⁰ countered that what mattered most was the greatest good for the greatest number of people. In *On Liberty*, Mill argued that the greatest good for political arrangements entailed respecting every person's liberty, not just that of the monarchy or parliament.¹¹ Ethical conduct is that which creates the most good in the world, provided the liberty of others is not violated.

Organizations need managers who are utilitarians, looking after what is best for the organization, its various stakeholders, and broader society. As a predominant ethical theory, however,

utilitarianism can be problematic for organizations. For instance, to avoid bankruptcy, utilitarian managers could decide to save money by eliminating costly safety protections that benefit only a few maintenance workers.

Utilitarians seeking a reasonable solution to these issues usually will expand their thinking to go beyond a cost-benefit analysis and to include an evaluation of various rights. This shift moves the decision-maker from an outcome-based perspective to a more duty-based approach, known to philosophers as deontology.

Deontology

Deontology establishes ethical priority based on the duty of the decision maker to the different stakeholders. When faced with a decision, a deontologist asks, “Does the action treat *stakeholders* with respect and dignity? Is the action something that everyone *should* do? If yes, then it is right. If no, then it is wrong.” Deontologists tend to reason as follows: “I strongly believe that *x* is the best decision because everyone has a duty to treat everyone else with respect in all situations.”

Respecting every stakeholder is a more complex type of moral reasoning than utilitarianism. In this sense, the individual is not just concerned about what benefits the majority but whether every person affected is treated with respect. Deontologists emphasize a duty to follow “moral rules” applicable to all people in all situations, such as the Golden Rule, Bill of Rights, or Ten Commandments.

Following the Golden Rule (“Do to others as you want done to you”) is helpful yet at times problematic. What if you would not want to know about a regulatory violation? Should you then not tell others about a regulatory violation? Philosopher Immanuel Kant prevents this faulty line of reasoning by invoking a **categorical imperative**, which is a rule that applies to all situations. Kant’s primary categorical imperative maintains that one must “act according to the maxim whereby you can at the same time will that it should become a universal law.”¹² In other words, what would happen if everyone did what you were planning to do? If it is morally permissible for you not to report a regulatory violation, it must be morally permissible for everyone not to report regulatory violations, a universal rule that rational people would reject.

Respecting yourself and others is a core deontological principle. Universal human rights, which respect the dignity and autonomy of every human being, are based on deontology logic. Deontology can be difficult for managers to apply because the ethical theory demands moral consistency. The manager must constantly respect every stakeholder. One must be truthful all the time, not just when it benefits you or feels comfortable.

The “Trolley Problem” is a series of three ethical dilemmas developed by moral philosophers that highlight the tension between utilitarianism and deontology. They explore contextual factors that might influence a person to change which action is considered ethical. Consider the following:¹³

Scenario 1

Assume an out-of-control trolley car is hurtling down a street. Five people working on the track are in its path and about to be killed. You can save five lives by pulling a lever that will divert the trolley to an alternative track. Unfortunately, one worker is on the alternative track and pulling the lever would kill him. Is it ethical to pull the lever?

[Utilitarian response: Yes; Deontology response: No]

Scenario 2

Assume the one worker is a member of your family. Is it ethical to pull the lever?

[Utilitarian response: Yes; Deontology response: No]

Scenario 3

Assume that you are standing on a bridge when the runaway trolley takes aim at the five people working on the track. Unfortunately, the only nearby heavy object, besides yourself, is the stranger standing next to you. You are strong, and throwing the stranger over the bridge will stop the trolley. Is it ethical to throw the stranger in the path of the trolley?

[Utilitarian response: Yes; Deontology response: No]

Organizations need managers who are deontologists, working to ensure that stakeholders' rights are respected. As a predominant ethical theory, however, deontology can be problematic. Respecting stakeholders equally is not always achievable, practical, or desirable. The 80/20 rule suggests that 20% of an organization's customer base provides 80% of its revenue.¹⁴ During difficult economic times, managers must take special care of their most important customers. Deontology, however, may demand that all customers be equally respected. But if the top revenue-generating customers are not satisfied, they might take their business elsewhere, which could bankrupt the organization and cause everyone to be unemployed.

Deontologists seeking a reasonable solution to problems usually will expand their thinking to include a wider arrangement of virtues, moving beyond a focus on the rights of others to a focus on what an ethical decision would be in a perfect world.

Virtue Ethics

Virtue ethics establishes ethical priority based on cultivating good habits that reflect moral character. When faced with a decision, a virtue ethicist asks, "How would a virtuous person act in this situation? If the act strengthens moral character, then it is right. If it is contrary to moral character building, then it is wrong." Virtue ethicists tend to reason as follows: "I strongly believe that x is the best decision because that is what a person of high moral character would do."

Virtue refers to achieving excellence in moral character.¹⁵ Virtue is sensitive to context and circumstance, generally produces good outcomes, and can be developed and practiced.¹⁶ The list of virtues is extensive. Business ethicist Robert Solomon catalogued 45 virtues related to business activities.¹⁷ The most common grouping of virtues includes justice, empathy, passion, piety, reliability, respect, and incorruptibility.¹⁸

Identifying and applying virtues is a more complex type of moral reasoning than utilitarianism and deontology.¹⁹ Utilitarianism is an "ends-based" ethical theory in which the right action is defined by the consequences, which often are easily predicted. Deontology is a "rules-based" ethical theory in which the right action is defined by following a pre-identified set of moral rules that should be applied by everyone in all situations. Virtue ethics, however, is based on identifying and applying those traits that make up a person or organization of "good character." This is difficult as different virtues may result in different decisions, so even the virtues pursued must be prioritized. And different people will prioritize different virtues in different orders.

Aristotle noted that the purpose of life is to be happy, and the greatest happiness is achieved when a person excels in virtue.²⁰ An individual who habitually practices the virtues lives a proper life. A virtuous manager is a person who not only exercises the virtues but also helps make everyone else in the organization a better person. Managers can practice the virtue of fairness in their dealings with all stakeholders, the virtue of accountability by achieving organizational goals, and the virtue of transparency so stakeholders can trust managerial words and actions.

According to Aristotle, virtue is a "golden mean" between two extremes. Every virtue has an excess version and a deficient version, both of which are vices. For instance, courage is a virtue. Cowardice, a lack of courage, is a vice. Recklessness, an excess of courage, is also a vice. Common

managerial vices to avoid include greed (an excessive desire for possessions and material wealth), anger (an excessive desire to express hate), ignorance (a lack of appropriate information), and lust (an excessive desire for sex).

Virtues have cross-cultural appeal. Western philosopher Aristotle and Eastern philosopher Confucius share much in common about what constitutes good habits.²¹ Rushworth Kidder and the Institute for Global Ethics have surveyed people from around the world about the ethical values that matter the most to them. Kidder and his colleagues have found strong consensus among five values, or virtues, that are common worldwide.²² They are responsibility, fairness, respect, compassion, and honesty. Cultures may weigh each of these five shared virtues differently, but they are all consistently among the top five. No matter where in the world a person may be, people in that nation value individuals who are responsible, fair, respectful, compassionate, and honest.

Organizations need managers who are virtue ethicists, constantly practicing virtuous behaviors. As a predominant ethical theory, however, virtue ethics can be problematic. Practicing honesty can result in telling a hurtful truth, which conflicts with practicing kindness. For these reasons, decision-making should reflect an analysis under all six ethical theories.

The Relationship of Ethical Theories to the Stages of Moral Development

The six ethical theories parallel Lawrence Kohlberg's six stages of moral development discussed earlier in the chapter. As shown in Table 2.2, moral development Stages 1 and 2 reflect egoism reasoning, Stage 3 reflects social group relativism reasoning, Stage 4 reflects cultural relativism reasoning, Stage 5 reflects utilitarianism and deontology reasoning, and Stage 6 reflects deontology and virtue ethics reasoning.

Age Group	Stage of Moral Development	Ethical Theory
Childhood	<i>Stage 1: Punishment avoidance:</i> Obedience to rules because of fear of authority	<i>Egoism:</i> Does the action hurt me?
Youth and adolescence	<i>Stage 2: Reward seeking:</i> Self-interest, fairness to me, reciprocity	<i>Egoism:</i> Does the action benefit me?
Adolescence and early adulthood	<i>Stage 3:</i> Mutual interpersonal expectations: Well-being of friends and coworkers	<i>Social group relativism:</i> Is the action supported by my peers?
Adulthood	<i>Stage 4: Social system:</i> Duty to society's customs, traditions, laws	<i>Cultural relativism:</i> Does the action maintain laws and customs?
Mature adulthood	<i>Stage 5:</i> Prior rights, social contract, utilities: Human rights	<i>Utilitarianism:</i> Is the action the greatest good for the greatest number? <i>Deontology:</i> Does the action treat every stakeholder with respect?
Mature adulthood	<i>Stage 6: Universal ethical principles:</i> Justice, equality, fairness for everyone, universal human rights	<i>Deontology:</i> Does the action treat every stakeholder with respect? <i>Virtue ethics:</i> How would a virtuous person act?

Ethical Behavior Model

2.3 Identify the different factors within the ethical behavior model.

Ethical dilemmas tend to be complicated and involve trade-offs based on competing values and interests. Sometimes the trade-offs are between doing what in the ideal sense is the right thing to do, yet in the specific situation there is a strong temptation to do what may be wrong. For instance, employees know they should not cheat on their expense accounts, but some do so anyway. Those individuals sometimes justify the behavior on the grounds that the falsified receipts make up for previous unclaimed expenses because of lost receipts. Others may maintain the extra money is deserved supplemental income for being overworked or underpaid.

Sometimes the trade-offs are between competing conceptions about what is the right thing to do. It is right to keep a promise, and it is right to tell the truth. Should a subordinate maintain a promise to keep information shared by the boss confidential or provide the information when requested by the company president?

We typically act in ways that reflect our ethical judgments. As noted by business ethicist Marvin Brown, “Most people do what they think is right, considering the world they think they live in.”²³

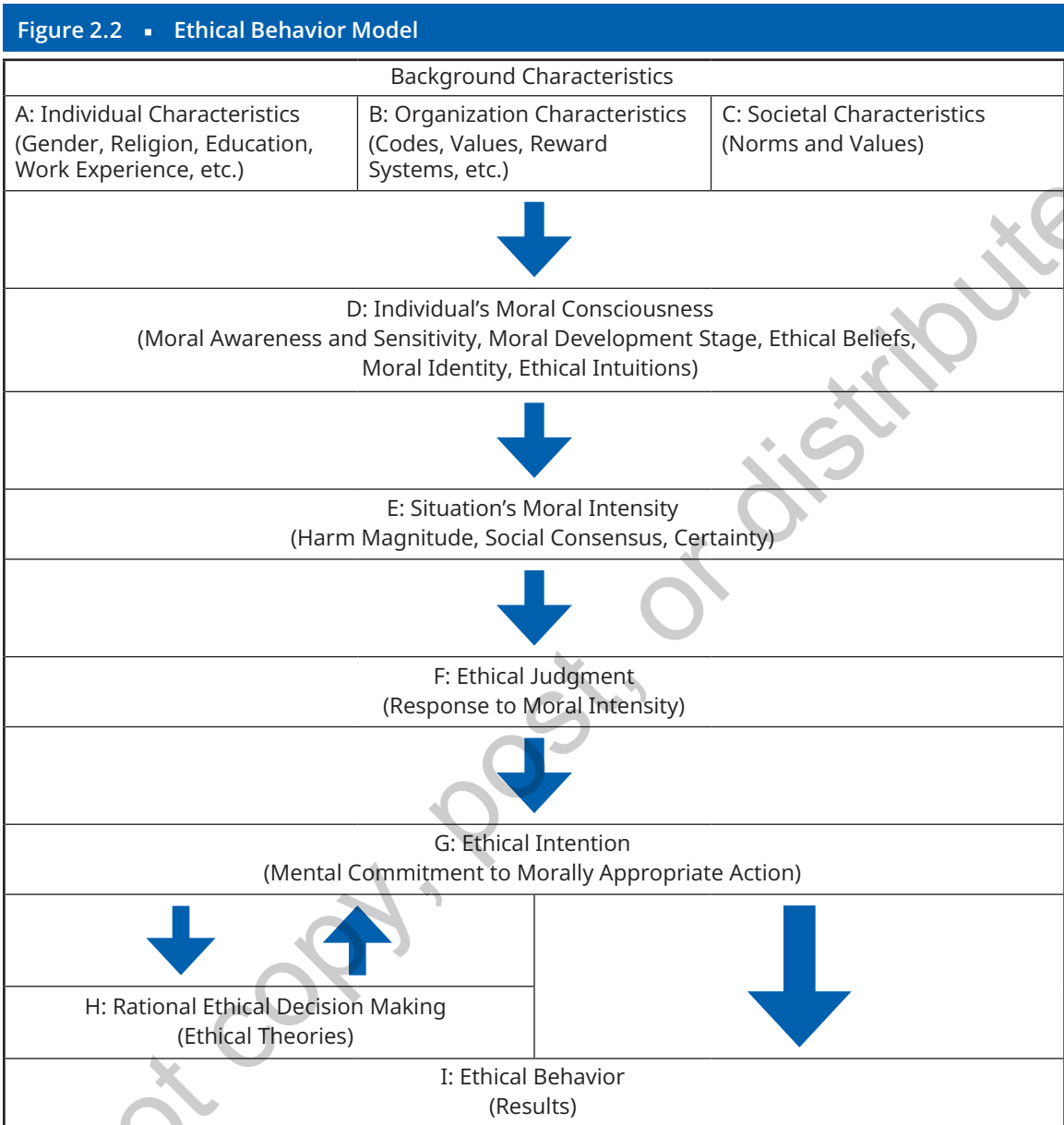
Managers need to understand how employees make ethical decisions and the factors that influence them. Figure 2.2 offers an ethical behavior model based on the ethical decision-making literature. Ethical decision-making involves many complex variables, and generalizations must be carefully considered because of nuances and exceptions to the rule. The rest of this section will discuss Parts A–G of this model (labeled as such), and the next section will more fully discuss Part H.

In general, individual, organizational, and societal characteristics contribute to the formation of an individual’s moral consciousness, which is heightened by a situation’s moral intensity and generates ethical judgments. The individual then formulates an ethical intention and acts on that commitment. Individuals, however, sometimes pause after formulating an intention because of other concerns and then undertake a more rational decision-making analysis that influences the behavior taken. Each of these factors is explained in further detail in the following sections.

Individual Characteristics (A)

Individual characteristics are descriptive attributes about an individual that influence our moral consciousness and ethical behaviors. Table 2.3 summarizes some research findings regarding individual characteristics.²⁴ It is important to know that not all studies are consistent and Table 2.3 sets forth generalities only. The variables reviewed are those that tend to affect ethical behaviors most, but not all, of the time.

Some variables generally are within an individual’s control and can be developed through personal initiative. These include decision style, educational level, locus of control, mindfulness, profession, religiosity, and work experience. Some variables are beyond an individual’s control, such as age, national culture, and gender.



Organization Characteristics (B)

Moral consciousness and ethical behaviors are also shaped by organizational factors, the major theme of this book. Culture, as discussed in Chapter 1, is one characteristic of the organization. Other components include the strategic plan, the financial stability, and the physical location of the business. The most prominent reasons for unethical behavior within organizations are following the boss's directives, meeting overly aggressive business or financial objectives, helping the organization to survive, meeting schedule pressures, and

Variable	Results
Age	Studies related to age vary in results, though age tends to be correlated with better ethical decision-making.
Decision style	People with a balanced thinking style (linear and nonlinear) tend to be better ethical decision makers.
Education level	People with more education tend to be better ethical decision makers.
Gender	Women tend to be better ethical decision makers, but sometimes the differences can be explained as resulting from women exhibiting a higher social desirability response bias.
Locus of control	People rated high for internal locus of control tend to be better ethical decision makers.
Mindfulness and moral conversations	People engaged in contemplation practices and moral conversations and rated high for internal awareness tend to be better ethical decision makers.
National culture	People from individualistic, compared with collective, cultures tend to be better ethical decision makers.
Profession	People rated as highly committed professionals tend to be better ethical decision makers.
Religiosity	People rated high for “religiosity” and spiritual well-being tend to be better ethical decision makers.
Work experience	People with more work experience tend to be better ethical decision makers.

wanting to be a team player.²⁵ Other organizational characteristics with a generally positive impact on ethical behavior include the presence of codes of ethics, an ethical work culture, rewards for ethical behaviors, and punishments for unethical behaviors. Organization size generates inconclusive results; both small and large businesses are just as likely to behave ethically or unethically.

Employees can also shape organization characteristics to encourage ethical behaviors through “moral symbols,” such as inspiring ethical quotes at the bottom of email messages or the presence of family pictures or a religious icon in an office.²⁶ Researchers report that these symbols not only increase moral awareness, but when displayed by subordinates, their managers are less likely to direct the subordinate to do something unethical.

Societal Characteristics (C)

An individual’s moral consciousness and ethical behaviors are also shaped by the society in which she or he is raised and works. **Culture** is a “way of life” that consists of national heritage, customs, religious traditions, social interactions, social institutions, arts, and achievements that reflect a particular nation, people, or other social group. Together, these attributes form a belief system and worldview shared by members. Parents, schools, and social organizations convey the belief system and worldview to children, who carry on the tradition.

A nation's culture shapes moral sentiments and determines acceptable and unacceptable behaviors in the business sector. Geert Hofstede differentiated cultures according to six paired values.²⁷ According to Hofstede, the paired values are these:²⁸

- *Individualism versus collectivism*: The extent to which people in a society feel independent (individualism) rather than interdependent members of larger wholes (collectivism).
- *High versus low power distance*: The extent to which people in a society accept power inequalities.
- *Masculinity versus femininity*: The extent to which people in a society are motivated to be the best and use force (masculine) rather than like what they do and express sympathy for others (feminine).
- *High versus low uncertainty avoidance*: The extent to which people in a society tolerate uncertainty and ambiguity and deal with the fact that the future can never be known.
- *Long-term versus short-term orientation*: The extent to which people in society maintain some links with their own past while dealing with the challenges of the present and future.
- *Indulgence versus self-restraint*: The extent to which people in a society try to control their desires and impulses. In an indulgent culture, it is good to be free and follow your impulses. In a restrained culture, the feeling is that life is hard, and duty, not freedom, is the normal state of being.

How might these paired values affect behaviors? A society with high power distance, high masculinity, and high indulgence is more likely to be tolerant of corruption.²⁹ A society based on individualism, compared with collectivism, may be less tolerant of nepotism. Other important societal considerations include social attitudes toward money, competition, and risk-taking.³⁰ Researchers report that although societal values influence ethical decision-making, individual-level values have a greater impact.³¹

Individual's Moral Consciousness (D)

As suggested by Kohlberg, the basis of an individual's moral consciousness is a prominent factor that predicts ethical behaviors. Individuals who have high moral awareness, moral sensitivity, and moral identity; strong ethical beliefs and ethical intuitions; and reason at a high stage of moral development tend to behave more ethically than do their counterparts. These factors deserve further explanation.

Moral awareness and sensitivity refer to recognizing that a situation has ethical dynamics. For instance, an ethically sensitive manager may pay an adult a higher "living wage" rather than a minimum wage because the minimum wage is not sufficient income to pay for food, rent, medical expenses, and transportation. Ethically insensitive managers may believe it is appropriate to make sexual jokes around employees. People cannot intend to behave ethically if they do not think there is a moral issue at stake.

The stages of moral development play a central role in ethical decision-making. An individual's moral consciousness expands when moving up to the next highest stage. Individuals who reason at the highest stages of moral development have greater moral awareness and tend to make better ethical decisions. Organizations and society benefit when leaders habitually think about how to respect everyone's interests rather than just their own interests.

Ethical beliefs also affect ethical judgments, intentions, and behaviors. According to Icek Ajzen's **theory of planned behavior**, formulating an intention to act ethically is a function of a person's attitudes and beliefs toward the behavior, subjective norms, and perceived behavioral control.³² Individuals are more likely to prevent someone from stealing if they and people they respect strongly believe that stealing is wrong and they desire to comply with the desires of people they respect. In addition, they must also have the ability and resources to stop the stealing and believe it would be relatively easy to stop the stealing.

Moral identity refers to how strongly an individual identifies with being moral.³³ Individuals who have a strong moral self-image and value being moral are more likely to behave ethically. Individuals with high moral identity are more likely to "rock the boat" in ethically contentious situations and exercise moral courage. People most often associate moral identity with deontology and virtue ethics, ethical theories described in greater detail earlier in this chapter.³⁴

Ethical intuition is a quick moral insight, or "gut" reaction, independent of any substantive reasoning process about right and wrong. If a customer calls about a product delivery time schedule and a manager directs the employee answering the call to falsely claim the product will be delivered on time, the employee has a brief moment to decide what to tell the customer. In these situations, people follow their ethical intuitions.

According to Jonathan Haidt, many ethical decisions are the result of intuitive reactions rather than deep reflection.³⁵ These gut reactions flow out of a person's deeply embedded value system. Some individuals will automatically be loyal to the boss and lie to the customer, whereas others will automatically be honest to the customer. Later, a decision maker might say, "At the time it seemed the right thing to do, but now that I've thought about it . . ." or "I had to decide right away, I had no time to think about it." In these instances, the person has relied on ethical intuition.

Other times, our gut reaction is to avoid an unethical situation even though we may not be rationally aware one is in our presence.³⁶ This occurs when we say, "I don't know why, but I just don't feel good about this." We sense some likely inconsistency between our personal values and undesired outcomes from events that may evolve if a particular action is taken. We feel a sense of anxiety, or maybe even guilt, but are unable to articulate a reason why.

In the engineer's car emission software cheating dilemma mentioned earlier in this chapter, one employee's gut reaction might be to not participate in creating software that cheats on emissions standards, whereas another's gut reaction might be to remain loyal to the manager and team by working on the project—after all, the project has management support.

Situation's Moral Intensity (E)

A situation's moral intensity is the next phase of the ethical decision-making model.³⁷ Ethical issues abound daily. Which of these issues are most likely to get the attention of our moral consciousness?

Moral intensity refers to issue-related factors rather than individual or organization factors and determines the depth of a person's moral approval or disapproval, which gets our attention.

According to business ethics scholar Tom Jones, an issue's moral intensity is influenced by six factors.³⁸ An act is likely to have high moral intensity under the following conditions:

1. *High magnitude of consequences:* The act generates many severe harms, such as dumping hazardous waste in a river that could kill many people.
2. *High social consensus:* There is a strong social consensus, at both the broad societal level and at the local group level, that an act is bad, such as lying about automobile safety features.³⁹
3. *High probability of effect:* There is a high probability the act will cause predictable harms, such as cigarette smoking causing cancer.

4. *High temporal immediacy*: There is a short amount of time before an act generates harmful outcomes, such as terminating 90 employees immediately rather than providing a 60-day prenotification.
5. *High proximity*: Those harmed are near the act, such as burying hazardous waste materials near homes rather than in the uninhabited mountains of Nevada.
6. *High concentration of effect*: The amount of harm occurs in a concentrated area rather than a little in multiple areas throughout the world, such as everyone in a neighborhood being harmed by lead poisoning.

Given these concerns, the most morally intense acts are those where there is strong social consensus that the act is wrong and a high likelihood the act will cause severe harm to many people in a short period within a close and concentrated area. If such an act occurs, the manager and organization face public outrage and strong legal condemnation. In these situations, individuals with high moral identity will have the strongest reactions.⁴⁰

Ethical Judgment (F)

An individual's ethical judgment is influenced by individual, organizational, and societal characteristics that contribute to the formation of an individual's moral consciousness, which responds to a situation's moral intensity. At this point in the ethical decision-making model, the judgment is usually intuitive rather than deeply reflective.

Ethical intuitions often flow from habituated thought patterns and deeply held convictions, which are then used to quickly evaluate and judge the available options. Ethical thought patterns can range from "What's in it for me" to "Do to others what you would want done to you." Researchers report that people whose thought patterns were rated "high" for idealism, deontology (respect everyone all the time), empathy, and altruism tend to be better ethical decision makers compared with those rated high for relativism (no absolute right or wrong) and economic orientation.⁴¹

But how can a manager know when his or her ethical intuition needs deeper moral reflection or when they sense employees are about to justify a bad decision? Employees in a manufacturing facility with toxic chemicals are visually warned when entering hazardous areas by flashing red lights, loud sirens, and large signs with skulls and crossbones. Unfortunately, warning lights do not flash when employees enter an ethical hazard zone.

Michael Josephson describes 10 common rationalizations for unethical acts as "ethical hazard approaching" signs:⁴²

Beware when someone says the following:

1. It may seem unethical, but it is legal and permissible.
2. It may seem unethical, but it is necessary.
3. It may seem unethical, but it is just part of the job.
4. It may seem unethical, but it is all for a good cause.
5. It may seem unethical, but I am just doing it for you.
6. It may seem unethical, but I am just fighting fire with fire.
7. It may seem unethical, but it doesn't hurt anyone.
8. It may seem unethical, but everyone else is doing it.

9. It may seem unethical, but I don't gain personally.
10. It may seem unethical, but I've got it coming.

Pause and reflect on the thought, *It's ethical because it's legal*. As discussed earlier in this chapter, ethics are more than just the law. Laws change all the time, often because an individual or group of people believes that an existing law is unethical.

One strategy to reduce “excuses” for unethical decision-making is to sensitize employees to recognize these ethically hazardous rationalizations. This can be done as a training session, which is the topic of Chapter 6. In training, the workshop facilitator can read the list of 10 justifications and ask participants to share stories about when they heard this rationalization given. Then participants can apply the systematic rational ethical decision-making process (from Part H, following) and propose a more ethical course of action for the next time the situation occurs.

Ethical Intentions (G)

The preceding factors, ending with ethical judgment, contribute to the formation of an intention to behave ethically. An **ethical intention** is mentally committing to take an action that is morally appropriate. An individual, however, might still not follow through on the ethical intention. For instance, an employee can announce to others his or her sincere intention to stop a coworker from stealing product yet fail to do so when the time to act arrives. Obstacles that divert acting on an ethical intention include second doubts, weakness of will, lack of moral courage, and old habits.

Second doubts arise when the decision maker reanalyzes one of the previous factors that contributed to the intention. Maybe stopping the coworker from stealing will generate worse outcomes (moral intensity), such as ostracism from work peers (an organizational characteristic). A weakness of will, lack of moral courage, and old habits may also dilute the initial ethical intention.⁴³ An employee who has never spoken out against unethical behaviors at work may initially intend to change that habit after observing the coworker's theft. But then fears may arise, and the employee does not follow through on the intention because it is easier for the employee to remain quiet and let someone else prevent it.

Ethics must become an important consideration in an organization's decision-making process. Some professional organizations aid managers along this path by providing them with a decision-making framework they can rely on for specific ethical issues. As shown in “Ethics in Action,” the Rotary International's Four-Way Test provides a simple framework for analyzing the ethical dimension of a decision, though it lacks the systemic rigor of applied moral philosophy. More than 1.2 million business, professional, and community leaders are members of 35,000 Rotary International clubs around the world. Many clubs recite the Four-Way Test at their weekly meetings.⁴⁴

Ethics in Action

Rotary's Four-Way Test

The Rotary Four-Way Test was created in 1932, when Chicago businessman Herbert Taylor met with four of his managers, each practicing a different religion, to develop a set of ethical principles to guide managerial decisions and ensure business success.

Taylor encouraged members of his local Rotary to use these four principles. In 1943, the national Rotary organization adopted Taylor's Four-Way Test:⁴⁵

Of the things we think, say, or do,

1. Is it the TRUTH?
2. Is it FAIR to all concerned?
3. Will it build GOODWILL and BETTER FRIENDSHIPS?
4. Will it be BENEFICIAL to all concerned?

Systematic Rational Ethical Decision-Making Process (H)

- 2.4** Apply the systematic rational ethical decision-making process to a business issue, including persuading others to adopt the ethical resolution.

Employees arrive at an organization with preconceived ideas about right and wrong. Based on an issue's moral intensity, employees form ethical judgments, which may lead to developing an ethical intention to morally act, and then act on that intention. Sometimes, however, our ethical intuitions are wrong, and the outcome is contrary to our expectations. We then scratch our heads and wonder, *What was I thinking?* The problem is that we weren't thinking critically.

When we recognize this, we engage in a more reflective systematic rational ethical decision-making process to determine how and why our intuitions failed us and what changes in our beliefs or behaviors must occur to generate the desired ethical behavior. We may also apply a systematic rational ethical decision-making process when others question our decisions or behaviors. In both situations, we reconsider our beliefs or revise our actions, so they harmonize with one another.

Ethical reasoning is just like any other managerial problem-solving process. When confronting a problem, managers examine it from all relevant perspectives, list available options, prioritize options, and determine which alternative makes the most sense. The same decision-making process can be applied to ethical analysis. Table 2.4 provides a systematic rational decision-making process that can help management and nonmanagement employees broaden their perspective for deriving moral conclusions. The questions and analysis can reveal a wide range of ethical aspects to consider before making a decision.

Answers to the seven-question systematic rational ethical decision-making process questions can help managers reach a moral conclusion regarding the rightness or wrongness of any decision. The answers to Questions 5, 6, and 7 direct managers to the most moral decision. Doing something because the action generates the greatest good for the greatest number of people affected by it, treats all stakeholders with respect and integrity, and is something a virtuous person of high moral character would do provides a tremendous amount of moral certitude. This is how we hope our leaders behave. But if acting on that conclusion might result in the decision maker being fired (Question 2), more reflection might be needed to determine how to do what is right without being fired.

Note how the "legal" answer is not the highest ethical theory (Question 4). Laws are not created out of thin air; they are justified by concerns about the greatest good for the greatest number, respect for everyone, and virtuous behavior. Laws that fail to meet these three fundamental ethical concerns are usually an issue of public and political concern, debated, and sometimes changed.

Table 2.4 ■ Systematic Rational Ethical Decision-Making Process		
<p><i>Step 1:</i> Write the decision options in the appropriate column below.</p> <p><i>Step 2:</i> Apply the seven systematic rational ethical decision-making process questions to the decision under consideration to obtain relevant ethical information.</p> <p><i>Step 3:</i> Insert the ethical strength and weakness revealed by each of the seven ethical questions in the appropriate column below.</p> <p><i>Step 4:</i> Given the strengths and weaknesses, choose a decision option, explain why that option was chosen rather than the alternative options, and determine how to manage the weaknesses associated with the option chosen.</p>		
<ol style="list-style-type: none"> 1. Who are the people affected by the action? (stakeholder analysis) 2. What option benefits me the most? (egoism) 3. What option does my social group support? (social group relativism) 4. What option is legal? (cultural relativism) 5. What option is the greatest good for the greatest number of people affected? (utilitarianism) 6. What option is based on truthfulness and respect/integrity toward each stakeholder? (deontology) 7. What option would a virtuous person of high moral character do? (virtue ethics) 		
<p>Note:</p> <ul style="list-style-type: none"> • If answers to Questions 2 through 7 are all the same option, then do that option. • If answers to Questions 2 through 7 are mixed, then . . . • If answers to Questions 5, 6, and 7 are the same option, this option is the <i>most</i> ethical. But you may need to modify this decision in consideration of answers to Questions 2 through 4, or weaknesses associated with Questions 5 through 7. • If answers to Questions 5, 6, and 7 are mixed, then there is no clear “most ethical” response, and you should make your decision by carefully considering the strengths and weaknesses of Questions 2 through 7. 		
Option and Its Underlying Value	Option <i>Strengths</i> Based on Application of Ethical Theories	Option <i>Weaknesses</i> Based on Application of Ethical Theories
#1:	–	–
#2:	–	–
#3:	–	–
Option chosen	–	–
Chosen because	–	–
How will you manage chosen option? Weaknesses?	–	–

Reaching a Moral Conclusion: Volkswagen

The emissions example from the introduction of this chapter is based on a real situation with the German car maker, Volkswagen (Case Study 5 considers this scandal in detail). If you are a Volkswagen engineer in that situation, you will have to assess the ethics of the situation with all of the different lenses introduced in Figure 2.2. While a more thorough analysis should be done, this section will give a high-level overview of some of the considerations in the decision-making process. Your characteristics as the engineer are for example purposes only.

In terms of individual characteristics, you are well-educated, are not doctrinally religious, enjoy working alone and solving problems, and have worked in the industry for several years. You joined VW because of its organizational characteristics of employing world-class engineers and its goal to be the largest automaker in the world. Since joining the company, you have learned that the culture is very “top down” or authoritarian, with top management expecting loyalty and hard work to meet their expectations without argument or differences of opinion.

Your moral awareness and sensitivities tend to be moderate. Like many people, you reason at a Stage 3 conventional level of moral development, meaning you possess a good sense of right and wrong and are strongly influenced by praise and criticism from your colleagues and boss. Your ethical beliefs are dominated by loyalty to the engineering group, your manager, and VW. Your moral identity is also moderate. You rarely discuss or think about moral issues beyond being generally aware that you are a morally imperfect person living in a morally imperfect world.

The original assignment, or the context in which the ethical situation arises, comes from the company goal to design a high-profile new “clean diesel” car that has the potential to become the eco-friendly market leader.⁴⁶ The one major design problem is meeting the high American car emission standards—which are higher than many other countries. Meeting the emission standards would negatively impact fuel economy and performance. While the engineers continue to look for solutions, there is pressure to create and install a “defeat device,” software that will temporarily cheat on car emissions tests.

As you consider your ethical position on this software, you recognize the authoritarian work culture and the unwillingness of other engineers to raise objections. You also believe that many automakers dishonestly report favorable miles per gallon and eco-efficiency results to regulators. You could participate without direct and personal negative outcomes, as any public outcry would be aimed at management.

The situation’s moral intensity seems modest. The extra pollution will be geographically dispersed, and nobody will die directly from the cheating software. The level of emissions will harm the overall environment and may be detrimental to people’s health overall, but the impact is spread across society. Compared to other sources of pollution, the impact is minor.

Applying the seven questions in Table 2.4 to salient ethical issues likely will reveal that each decision option has strengths and weaknesses, and ethical trade-offs might be required. Your first step is to list the options under consideration. You have two basic decision options: (1) do as directed or (2) refuse to participate in the project. There may be other options in a more thorough analysis, but for demonstration purposes, these are the two obvious alternatives to consider.

Once you have identified the options, the second step in the systematic rational ethical decision-making process is to apply the seven questions to each option and analyze the situation from the various ethical perspectives.

Question 1 identifies the stakeholders, which will include vehicle owners, people affected by the pollution, other VW engineers, VW shareholders, government regulators, and the natural environment. Question 2 applies egoism to determine which option will benefit you the most

personally. This analysis will include risk of job loss, impact on working relationships, and likelihood of positive outcomes for you.

Questions 3 and 4 apply social group relativism and cultural relativism to the options. By creating the cheating software, you were being loyal to supervisors who manage the software program and to peers who support it. In addition, your company is a large social group, and doing this will help your company gain revenue and market share. Cultural relativism, however, raises concerns about developing the software. Doing as directed to install the defeat device violates American law.

Applying utilitarianism under Question 5 seems objective but is complicated. Developing the software will help VW achieve its goal to be the largest automotive company in the world and will enrich many shareholders. However, clean air is a public good that affects many people, and those with respiratory problems will become sicker.

Finishing the application with Questions 6 and 7, deontology and virtue ethics, one must look at the underlying activities. Developing the software is intended to deceive regulators and consumers. It disrespects the environment and may contribute to increased health problems and respiratory illnesses. From the perspective of the virtue of loyalty, installing the cheating technology is being loyal to your work group and manager but disloyal to customers and regulators.

Once the theories are applied to the options, you must analyze the overall strengths and weaknesses of each option to determine which option is the most ethical. The different ethical theories likely will be in some conflict as to which option they support. It is the responsibility of the decision maker to evaluate the different applications and determine which applications have the most impact and are the most persuasive.

In completing the process and making a decision, you may determine that the answers to Questions 2 through 7 are ethically mixed. One alternative may seem very strong under Questions 4, 6, and 7. But the other alternative may seem stronger under Questions 2, 3, and 5. As the decision maker evaluates the options in this type of situation, other resources, such as a mentor or an ethics hotline may be available. But ultimately, you will have to make a decision based on your analysis. Moral courage will be required as there may be negative consequences to you personally.

In the real situation, the VW engineers created and installed emissions cheating software. Consumers were happy to have eco-friendly, high-performing cars. Unfortunately, the engineers were not able to solve the problem of meeting the emission standards, and the “temporary” defeat device became permanent. The emissions cheating continued for 6 years, and the defeat device was installed on over 580,000 cars sold in the United States.

Two U.S. university scientists researched the performance of three diesel cars, two of them produced by VW. They discovered that the VWs polluted 40 times higher than the U.S. emissions standards allowed. Soon after, the cars were taken off the market, and an investigation ensued. During the government’s investigation, VW lied many times about the technology. Eventually VW was fined—\$20 billion just in the United States—and more than 8.5 million diesel car owners in Europe filed lawsuits. The criminal investigation expanded, and six executives were charged with fraud, and one engineer pled guilty.⁴⁷ Several years later, new lawsuits were still being filed. While VW was working on an agreement to pay U.S. consumers \$96.5 million, the SEC filed a lawsuit for defrauding investors by selling bonds and securities while knowingly making false statements about car quality. Around the same time in Germany, a class action lawsuit involving 470,000 owners of diesel-powered cars began.

VW executives failed to make an ethical decision. Had they used a decision-making process like the one outlined in this chapter, perhaps they would have made a better decision. Applying the six ethical theories to a situation helps managers view the event from six different ethical vantage points. It does not provide the “one best ethical answer” for all

situations because context and extenuating circumstances matter when making a decision. Utilitarianism, deontology, and virtue ethics, considered the most advanced of the theories, matter a great deal. In many situations, these three highest ethical theories arrive at similar conclusions, which provide the decision maker with tremendous moral certitude. Sometimes they conflict. When they conflict, respecting everyone and doing what a virtuous person would do are considered the two most prominent ethical responses. But if the deontology and virtue ethics outcomes are not aligned with other ethical theories, pragmatic adjustments may need to be made, particularly if the decision is not supported by law or may result in job termination.

Persuading Others

Employees need to become comfortable engaging each other in an ethics discussion when contentious issues arise. After applying the systematic rational ethical decision-making process, two employees may still sincerely disagree about the appropriate ethical action. For instance, reasonable people can strongly disagree whether it is ethical or unethical for a manager to demand that everyone on the project team work through a weekend just before a Monday holiday.

Most people are comfortable with the ethical theory they intuitively rely on, and they may feel annoyed when others question their decisions. When ethical conflicts arise in organizations, the person with higher status tends to get his or her way. This conflict resolution approach assumes the higher-status person is applying the highest ethical theories, an assumption that has been proven false innumerable times.

A healthier approach is for a manager to listen carefully to employees who disagree, categorize the other person's response in terms of one of the six ethical theories, and then use that ethical theory to address the employee's concern. This is hard work. It requires a great deal of mental gymnastics and patience because we are accustomed to reasoning based on our preferred ethical theory, which we consider the most appropriate one.

Each ethical theory is similar to a different foreign language. Assume that egoism (self-interests) is equivalent to speaking English, and utilitarianism (greatest good) is equivalent to speaking Spanish. If an English speaker wants to persuade a Spanish speaker, the English speaker must communicate in Spanish; otherwise, no progress will be made. The same logic applies to using the ethical theories as persuasion tools.

Ethical Applications: Achieving Ethical Consensus

Many ethical disagreements can be solved. Use the following steps to help people achieve ethical consensus and win–win ethical outcomes.⁴⁸

Step 1: Both parties state their position on the issue.

Step 2: Both parties reveal the values and ethical reasoning that underlie their position.

Step 3: Both parties paraphrase each other's position.

Step 4: Both parties paraphrase each other's underlying values and ethical reasoning.

Step 5: Both parties, working together, craft a resolution to the conflict over the issue.

Step 6: Both parties check that the resolution does not conflict with their own values or ethical reasoning or those of the other party.

Assume that two managers disagree with each other about project team members working the weekend before a Monday holiday. One manager is an egoist and the other a utilitarian, and each manager wants to persuade the other. The egoist believes everyone should work the weekend so the manager can earn a bonus. The utilitarian believes having the weekend off will be good for morale and the work can still get done in time.

For the egoist to persuade the utilitarian, the egoist must realize that the utilitarian cares about the greatest good for the greatest number of people and does not care about his or her self-interest. Appealing to the utilitarian's self-interest will offend the utilitarian. To be persuasive, the egoist must communicate using utilitarian "greater good" reasoning. Maybe everyone working the weekend will significantly improve the chance of meeting consumer demand, which will benefit many people.

Similarly, for the utilitarian to persuade the egoist, the utilitarian must realize that the egoist cares about his or her self-interest and does not care about the greatest good for the greatest number. To be persuasive, the utilitarian must communicate using egoistic "self-interest" reasoning. Maybe giving project team members the weekend off will make them twice as productive after the holiday, thus they may earn an even bigger bonus.

What should be done if a manager using the systematic rational decision-making process during an employee meeting fails to achieve consensus? By going through this process, the decision maker becomes aware of the logic held by those on the other side of the issue. The decision maker is prepared to express the strengths and weaknesses of each option and to discuss how the weaknesses can be addressed. The employees may not agree with the manager's conclusion, but they will understand the manager's ethical reasoning and be able to convey that reasoning to other organization members.

Summary

Making ethical decisions and managing an ethical business requires a knowledge of how people think and reason about ethics. Understanding different theoretical approaches will help ensure that decisions are not made hastily and without a full perspective of the issues. Because ethics often include personal judgments and beliefs, having an objective process to collect information and apply different theories can help in the decision-making process.

Ethical judgments, intentions, and behaviors are influenced by the decision maker's individual characteristics, organization characteristics, societal characteristics, and moral consciousness and by the situation's moral intensity. Sometimes individuals question their ethical intentions. A systematic rational ethical decision-making process helps decision makers derive moral conclusions. A process that considers the perspectives of major ethical theories will give decision makers a solid foundation of reason and support for their decisions. Using this ethical decision-making process helps employees understand the ethical ramifications of workplace issues and enables employees to persuade those who disagree.

Key Terms

Categorical imperative
Cognitive dissonance
Conventional level
Cultural relativism

Culture
Deontology
Egocentric
Egoism

Ethical intention	Social group relativism
Ethical intuition	Stages of moral development
Jean Piaget	Theory of planned behavior
Lawrence Kohlberg	Utilitarianism
Moral intensity	Virtue
Preconventional level	Virtue ethics
Postconventional level	

Chapter Questions

1. Which individual, organizational, and societal characteristics affect the formation of a person's moral consciousness?
2. What are the seven systematic rational ethical decision-making process questions, and which three of these questions point the decision maker in the direction of the most moral decision?
3. What are the strengths and weaknesses for each of the six major ethical theories?
4. How would you apply the systematic rational ethical decision-making process to reach a moral conclusion about a business issue?
5. How could you persuade someone who disagrees with you about a business ethics issue (e.g., should you break confidentiality to help a boss soon to be fired)?
6. What are some of the warning signs that an unethical decision is approaching?