

# Business Ethics

## Part I – An ethical decision-making model

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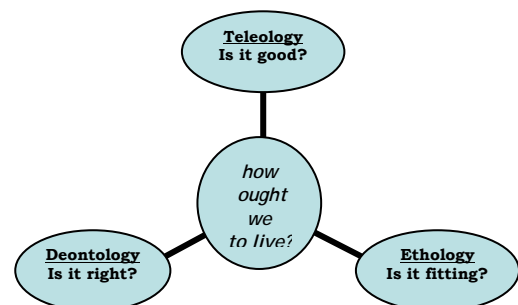
Today's business enterprises are required to operate in increasingly competitive and turbulent environments. The stresses imposed by industry forces on businesses usually hinder the adoption of long-term ecologically and socially oriented strategies, and lead organisations (or their employees) to cut corners in order to achieve their short-term bottom line objectives. An emerging counter-balance to this tendency is the demand by a public more aware about ecological and sustainability issues for businesses to act responsibly and to be accountable to society for the consequences of their activities.<sup>1</sup> An aware public also puts more pressure on regulatory authorities and industry watchdogs, including the media, to keep the activities of businesses under greater scrutiny. Future business leaders will have to recognize that words have limited value without actions to support them. Organisations and their leaders will be held accountable by what they do and not by what they say or by what their public relations people write. It is not by mere chance that business ethics is becoming an integral part of the long-term strategies of proactive organisations. Part I of this article provides a brief introduction to ethics and develops a values-based decision-making model that allows the key factors that influence ethical decision making to be identified.

### *Ethics – a brief introduction*

Ethics can be split into two broad categories, namely (1) meta-ethics and (2) normative ethics. Meta-ethics is concerned with issues such as why we should be concerned with morality at all and what does it mean to be moral. A discourse in meta-ethics would therefore look at the meaning of ethical terms, the nature of ethics and the grounds for pursuing it. Normative (or prescriptive) ethics is more pragmatic as it provides theories and principles which aim to guide our conduct by revealing the consequences of our actions.<sup>2</sup> Business ethics is about normative ethics, since it is the applied aspect of ethics that is relevant to guide decisions when ethical dilemmas arise in business contexts – i.e. situations with potential courses of action that, although offering potential benefits or gains, are also unethical. From this perspective, ethics can be seen as a set of moral principles or moral compass for a person or a group of persons. It deals with issues of fairness, justice, equality, trust, honesty and respect for life.

The central question in ethics is: *How ought we to live?* In contemplating this question, we are led to question our conduct and, importantly, to determine *what constitutes a good life*. In attempting to answer this pertinent question, normative ethics has evolved around three basic schools of thought as illustrated in Figure 1.

- **Deontology** seeks to define a clear distinction between “right” and “wrong” regardless of circumstances or consequences. It tries to find universal laws that are morally binding for the whole of humanity. For example, the United Nations Declaration of Human Rights, the Ten



**Figure 1.** Three areas of thought.

[adapted from A.C. Ping, in *Sensitive Chaos* (Hale and Iremonger, NSW, 1999)]

<sup>1</sup> For instance, see The Millennium Poll on Corporate Social Responsibility published by Environics International Ltd., the Prince of Wales Business Leaders Forum and the Conference Board.

<sup>2</sup> N. Preston, *Understanding Ethics* (The Federation Press, Sydney, 1996), Chapter 2.

Commandments and the Quran offer principles that are embedded in deontology. Deontology extrapolates from universal rules prescribed in the past to guide current and future conduct.

- **Teleology** attempts to deal with “good” and “bad” in light of the end results of our actions. It is interested in answering “Do our actions have good or bad consequences?” In modern society, teleology is expressed in utilitarian terms, whereby we deem actions to be good if they maximise utility (or welfare). Welfare is generally defined in terms of material benefits. To deliver the greatest material benefit to the greatest number of people lies at the heart of utilitarianism as it is practised today. It tries to determine the course of action amongst several alternatives that will have the most beneficial (or least detrimental) impact – i.e. an outcome-driven process that focuses on the future.
- **Ethology** relates to the values embodied in custom and common practice and to our inherited ethical habits. It involves looking at “What is fitting?” within a well-defined system of norms and cultural setting. Ethology encompasses the standards of behaviour by which people are judged. It is not a definitive way to answer the question “How ought we to live?”, but rather it attempts to describe our moral life and how it evolves over time. The relevance of ethology lies in the fact that ethics is practised in a non-ideal world wherein standards of moral behaviour are influenced by culture. Ethology is descriptive compared to the evaluative and prescriptive deontology and teleology.

One important point to note is that the three schools of thought do not necessarily converge when dealing with ethical dilemmas. For instance, consider the hypothetical scenario of introducing large-scale intensive industrial fishing in Mauritian waters. Given the fact that more than 75% of fisheries around the world have been depleted (some irreversibly) by such practices, the school of deontology could argue that this action is wrong. On the other hand, the utilitarian approach would support the decision (i.e. good) arguing that the resulting GDP growth would translate into more material wealth for the majority of islanders.<sup>3</sup> From the point of view of ethology, the local fishermen whose livelihood and lifestyle would be affected by the decision would probably protest against it (i.e. not fitting), while the city dwellers may decide otherwise.

### ***Why Business Ethics?***

Although a business is an expression of private enterprise, it is not an activity of isolated individuals. In the open systems approach, the organisation is seen as a social enterprise that is constituted of individuals and that carries out its activities for meeting the needs of individuals, including material, social, psychological and spiritual needs. Further, ethics allows businesses to develop ecologically sustainable strategies that enable them to minimise their “ecological footprint”. The business organisation is not only a social practice with implications for the public good, but it also an organic system that has an impact on the ecosystems (or biosphere) in which it is embedded. The social and environmental responsibilities of an organisation ought therefore to be integral parts of its routine operations, and form the backbone of business ethics. Business ethics is able to guide an organisation through ethical dilemmas such as “ought the organisation to discharge its effluent into a nearby river at the expense of destroying biotic life downstream and affecting people living in the neighbourhood in order to cut costs or to treat/recycle its effluent?” or “ought the organisation to treat its workforce as human capital or treat its people as a mere factor of production that needs constant rationalisation?”.

### ***An Ethical Decision-Making Model***

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<sup>3</sup> Under the potential Pareto-optimality rule, it will be argued that the project should go ahead as long as a net benefit will accrue after taking into account the possibility to compensate all losers (i.e. local fishermen population). Whether the losers will eventually be compensated is not part of the decision-making process.

Despite a strong academic and philosophical emphasis on the importance of ethics, a comprehensive ethical mindset has yet to permeate the culture in many organisations. However, in the light of unprecedented environmental degradation and social dislocation, organisations and their leaders have to bridge this gap, (this article is one stepping stone in that direction). They must grapple with ethics to design and implement management systems, structures and procedures by bringing together the theory of ethics and the practice of management to deliver an ethical framework. This is not a trivial exercise because business people tend to believe that ethics is something that is largely unmanageable, too soft, and too vague. This attitude is not entirely unfounded following the above example, and the fact that ethics does call for a profound examination of the causes of our conduct. One way to proceed is to identify the factors that contribute to unethical behaviour within the organisation, and then to design a framework to address them. Hence, this article can be seen as a stepping stone towards the gap that currently exists between ethics and the management discipline.

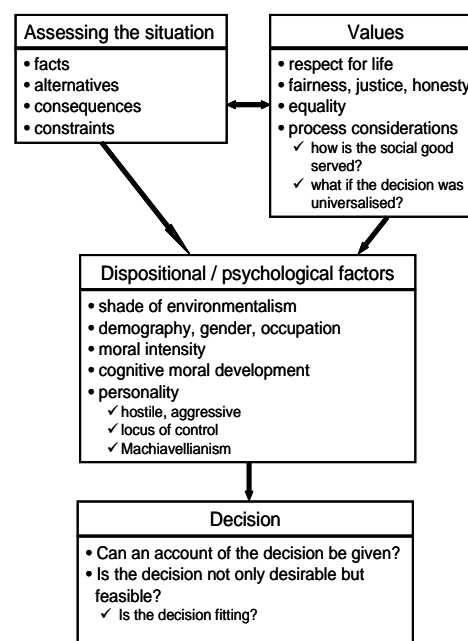


Figure 2. Decision-making model.

Figure 2 illustrates a multidimensional decision-making model that includes elements from the three schools of thought in the boxes “Assessing the situation”, “Values”, and “Decision”. The focus will be on the dispositional or psychological factors that influence the way individuals perceive and formulate problems, and justify their decisions.<sup>4</sup> This model is equally valid when the organisation is taken as a whole – i.e. an organism with a well defined culture and which promotes certain attitudes or beliefs regarding its responsibility towards society and the natural environment. These factors are of course interrelated.

1. *Shade of environmentalism* – The three dominant shades of environmentalism were introduced previously.<sup>5</sup> Using genetic engineering biotechnology as an example, it was shown that these mindsets provided different solutions to an ethical dilemma. The conservation mindset is aligned with utilitarian principles, and is used to justify profit-making as the predominant objective of business. In this case, the social and ecological capital should be managed properly using objectively defined scientific principles, not as ends in themselves, but rather to support the economic activity. However, it was shown that “management” is usually practised within institutions that are based on structures congenial to it (i.e. a circular system within which pre-defined objectives are merely reinforced), and that science is not objective.<sup>6</sup> In contrast, the social-justice and deep ecology mindsets promote social and ecological responsibility and awareness as goals to be pursued as ends in themselves.
2. *Femininity and masculinity* – As used here, these refer to traits such as affection, nurture, and social orientation (femininity), and independence or goal orientation (masculinity). These traits take a gender bias within most societies and cultures, but it does not have to be this way. Usually, persons exhibiting feminine traits are less likely to act unethically.

<sup>4</sup> Factors 2 to 5 are adapted from D.S. Beu, M.R. Buckley and M.G. Harvey, “Ethical decision-making: a multidimensional construct”, *Business Ethics* **12**, 88 (2003).

<sup>5</sup> See *Business Magazine*, Issue 622, May 26 – June 1, pp.45-47.

<sup>6</sup> See *Business Magazine*, Issue 635, August 25 – August 31, pp.56-58.

3. *Moral intensity* – Used to define if the decision-maker is socially, culturally and psychologically close to those influenced by his/her action. This factor is typically what drives people to value the wellbeing of relatives more than that of strangers or persons holding different cultural beliefs. Let us return to the example of a factory discharging its effluent into the river. If those affected downstream were close to the decision-maker, then the propensity to take this (probably illegal) action would be lower than if the persons affected were strangers. Conversely, unethical behaviour could entail when those close to the decision-maker stand to win by his/her actions.
4. *Cognitive moral development* – As individuals mature and develop through life experiences, their cognitive processes of moral decision-making become more universal. Six stages of moral reasoning can be identified as people develop and mature.<sup>7</sup>
  - Stage 1: Obedience and punishment** – Moral decisions are made in relation to the superior power of others, and are acts of self-preservation in fear of punishment.
  - Stage 2: Individualism and reciprocity** – Self-interested outcomes are achieved by bargaining. This stage underpins most business activities.
  - Stage 3: Interpersonal conformity** – At this stage, individuals are more socially-oriented but not in a giving way. They want what others have and do what others do. The drive for conformity is both what has been preventing social and environmental responsibility from businesses and what is now driving them to be more responsible and accountable to society and for their environmental credentials.
  - Stage 4: Social system or law and order** – The person is still socially-oriented, but feels the need for laws and regulations to protect him/her from others. Customs and cultural norms guide conduct according to what is fitting (see ethology). An organisation operating at this stage will defend its right to pollute by saying that it is operating within the boundaries of the law.
  - Stage 5: Social contract** – A sense of social obligation and deciding in favour of the “common good” has been developed. Decisions are made according to the utilitarian principle of “the greatest good for the greatest number” (see teleology).
  - Stage 6: Universal ethical principles** – By this stage, a full ethical philosophy that allows us to express universal moral principles that guide behaviour has been developed (see deontology). Here the Golden Rule of engagement applies – i.e. do unto others as you would have them do unto you. Ethics has thus become self-guiding rather than something we have to constantly work at and that is externally imposed.
5. *Personality* – (i) Individuals with a propensity toward hostility and aggression are more prone to behave unethically; (ii) Someone who identifies with a Machiavellian mindset may believe that it is acceptable to use any means, including manipulation, deceit, and bribery, to achieve a desired end; (iii) Locus of control is the degree to which individuals believe that outcomes depend on their personal behaviour. Persons with an external locus of control tend to believe that factors external to their own behaviour have more bearing on the final outcomes of decision-making, and are more likely to dissociate themselves from the consequences of their decisions.

**Summary** - Business as a social organism is possible only within a certain social context of institutions, agreements, understandings and shared values. Further, business can be successful in the long-term only if the integrity of the life support systems of nature and the resultant ecological capital are respected and sustained. Therefore, it makes sense that business is best undertaken on ethical grounds. A framework for developing ethics and the advantages of embracing business ethics as an inherent part of business practice will be discussed in **Part II** of this article.

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<sup>7</sup> A. Colby, L. Kohlberg and A. Abrahami, in *The Measurement of Moral Judgment* (Harvard University Centre for Moral Education, Cambridge, 1980); and W. French and J. Granrose, in *Practical Business Ethics* (Prentice-Hall, Englewood Cliffs, 1995).