

AN INTRODUCTION TO ETHICS

You are a senior executive in the sales department of a large manufacturing company. A competitor's technological innovation has disrupted your company's production and has plunged profits into the red for the last three quarters. Your boss has made it very clear that if you do not make your profit projections for this quarter, you will be out of a job. One of your staff members makes a suggestion to you about investing in new equipment to better monitor and service clients. After some research you realize that this investment, if enacted quickly, could increase sales and help the overall health of the company. Each quarter that you wait to implement this equipment will reduce its positive impact, but investing now will cause you to miss your profit projections and lose your job. What do you do?

Most people have one of two reactions after reading a case like the one above. Either they have a strong moral intuition toward one of the options, or they experience conflicting moral intuitions and cannot decide between the two. Moral intuitions or sentiments (as Adam Smith called them) are our gut reactions to a situation as to what is right or wrong. They are developed over time from our past experiences and social interactions. We may regret decisions that are based just on moral intuition when we find they missed the mark. It is only when we do the hard work of analyzing a case and meshing intuition with reason that we can be confident that we are making better choices. This is because our intuitions are determined by past experiences, which may be of little help in new moral dilemmas. In addition, apart from following the stronger moral intuition, we cannot decide between two conflicting intuitions without a standard or some criteria for what is better or worse. In both of these cases, we need to turn to ethics.

What Is Ethics?

Translated from ancient Greek, ethics means "theory of living." In answering the question: "How should we live?" one engages in a consideration of ethics—thinking about what is right and wrong. Ethical deliberation is the process of consciously reasoning about what is right and wrong and giving defensible reasons for actions that reach far beyond one's initial moral intuition. Ethics requires that we engage others in conversations regarding our concerns,

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and offers a check on our moral intuitions as well as an opportune action and thus find better ways to live. The process of moral judgment—deciding what is right and wrong and refining moral intuition—ultimately affects the way a manager will act in a given situation. Obviously, if a manager thinks an action is good (or at least not bad) he or she is more likely to do it.

It is important to point out that ethics is more than an individual's own appraisal of a situation; it is also cultural—whether that culture is an organization, an industry, a community, a nation, or a fundamentally human consideration. Ethics is about how one should live as an individual as well as how to live with others—who may be significantly different. Ethics assumes that people are accountable for their actions. Every day, managers make decisions that can affect customers, employees, financiers, partners, the community, and the world in powerful ways. Since managers are accountable to these groups, they must have morally defensible reasons for their actions that go beyond mere intuition.

Disagreements in Ethics

People see the world in different ways. These differences can lead to disagreement about what is right and wrong. To offer morally defensible reasons for an action one must understand where disagreement occurs in the conversation about morality. People can disagree about the facts of a case, the values and principles involved, or about the language and framing.

In the case that introduces this note, one might doubt the claim that investment in the new technology will increase sales. This is a disagreement about the facts of the case. Believing or not believing this information can drastically change the options that one would consider. There may also be critical pieces of information missing from the case. In addition to clarifying the facts about which there is disagreement, it is important to clarify what facts there is agreement on, since these can provide a starting point for a constructive solution.

Even if there is agreement on the facts of the case, there may still be disagreement about what one should do. This is disagreement about values and principles. In the situation at the beginning of the case, even if one accepts all the factual parameters, it can still be debated whether one should implement the technology or not. One might base the decision on self-preservation—for example, implementing the technology would result in being fired; therefore, one should not do it. Someone else might anchor his or her decision on loyalty to the company: Implementing the technology could save the company; therefore, one should do it. The disagreement here is about which values (self-preservation or loyalty to the company) take precedence in this context.

Finally, there can be disagreement on the framing of the case. One might question the either/or framing of the case. Would one really be fired if he or she implemented the technology? Couldn't one reason with the boss? It might be that the boss is amenable to the ideas, and there may be a way to satisfy both the values of self-preservation and company loyalty—or not. How a decision is framed delimits the options and considerations given to it. Is this a case about duty to

the shareholders or about duty to oneself? Each framing guides the manager toward certain conclusions. Being clear about the framing and language of the case can go a long way in understanding one's own beliefs and values as well as those of others.

Levels of Ethical Inquiry in Business¹

The kinds of ethical questions that emerge in business fall into four levels, although a particular problem may relate to more than one specific level.

Society

This level focuses on the basic institutions of society and the arrangement created to make them work. Here, the focus is on the conduct of economic affairs: What are the larger goals for economic life, and how should the economy be structured to best realize them? Is capitalism the preferred method of structuring an economy? Is America's particular version of capitalism preferable to alternative models, such as those found in Japan, Germany, and Canada? What sort of role should government play with respect to business and the function of the economy?

Corporations and corporate policies

Here, the emphasis is more specific, relating to the operation of a particular company and the groups that affect or can be affected by its operations (e.g., suppliers, customers, stockholders, local communities, employees). Pertinent considerations include the relative importance of these groups to the firm; what sorts of obligations and duties are owed to each of these groups and vice versa; and how the firm can develop strategies and forms of interaction among stakeholders to realize its primary goals.

Stakeholders (focusing on employees as an illustration)

This level focuses on the approaches a firm takes in its relationships with its various stakeholders, including employees. What sorts of contracts are equitable? What employee rights (beyond what the law dictates) should the firm acknowledge and observe (e.g., is email confidential)? What responsibilities does a worker owe to the firm and the firm to the worker? Issues of leadership, motivation, rewards and incentives, and layoffs are all part of this domain.

Personal

This level relates to how people should treat each other in their roles within the firm. To what extent does a manager have duties to respect others: to be honest and open with them, to value their contributions, to empower them? How are roles defined, and do they create reasonable expectations of employees both as people and as workers performing jobs? An underlying concern here is the issue of to what extent the firm treats people strictly as a means to

¹ This section is based on a portion of R. Edward Freeman's "A Note on Ethics and Business," UVA-E-0071.

an end for the firm, rather than as an end who ought to be treated with respect regardless of the firm's financial status.

Ethical Frameworks

An ethical framework is a set of questions that managers can use to get beyond their initial moral intuitions and clarify the relevant features of a case. The questions in a framework may force one to think about the issues from other perspectives or to look at rules that may apply. A good framework helps managers avoid rationalization of their initial moral intuition by looking at disconfirming data or differing opinions. It serves as a test to guide and refine moral intuition through a variety of cases. A good framework takes the best from your moral intuition and adds the pieces that may be missing. At a minimum, a framework should include questions from the three broad ethical traditions concerning character, consequences, and principles. Here is an example of a framework:

1. Who are the stakeholders? Who is affected by this issue and how? What does each party have at stake?
2. What are the most important values of each stakeholder? How is each stakeholder harmed or benefited by options that might be considered?
3. What rights and duties are at issue?
4. What principles and rules are relevant?
5. What are some relevant parallel cases?
6. What should we do?

It is important to note that a framework is the opening curtain for ethics, not its final act. Managers must also talk to others, especially those affected by the decision, to evaluate a proposed action.

Engaging in ethical inquiry can reduce negative consequences, keep managers from breaking important rules, and maintain a leadership character, but it is no absolute guarantee against avoiding harms. Sometimes actions have unintended or unforeseeable consequences. Even in these cases, those who are harmed will be more likely to work with decision-makers if they believe that their interests are genuinely valued, rather than being a "roadblock" to someone else's success. The cases where ethics fails are an opportunity to revise and supplement frameworks and moral theory to strengthen their efficacy for the next situation.

What Difference Does My Decision Make?

One of the potentially frustrating aspects of ethics is that the exercise of discussing cases and debating how to proceed can sometimes leave people more confused and uncertain than they

were when they started. Rather than getting answers or coming closer to the truth, some case discussions make it seem as though these goals can be more elusive than before the discussion began. Frustration can lead to apathy, raising the question of why one should engage in the process at all—if there is no clear right answer, what difference does my choice make? How is my answer any better than anyone else's? Why “do” ethics at all? These are important and sensible questions, but the following considerations suggest why a particular decision matters.

Managers are held accountable by various stakeholders

The decision made must be defensible to various stakeholder groups, particularly those to which the firm is most committed and those that have the most power to influence the fate of the firm. In many instances, a job may be at stake, the success of a particular product or project may be involved, possible legal action or public outcry could be at issue, and so on. In such circumstances, managers must pay careful attention to how they approach the problem, whom they decide to include, how and when they decide, as well as what they choose. The ability to defend a decision, its rationale, and the process of deliberation are vital to business success. Stakeholder groups that are relevant include superiors/colleagues in your firm, communities/customers and society as a whole, and other stakeholder groups who have an interest or stake in the outcome.

Ethical problems are part of the job

Managers are asked on a daily basis to weigh or balance responsibilities to various stakeholders. Resolving conflicting demands and obligations is part of a manager's responsibility. Just because these choices are difficult and complex doesn't mean they can be handed off to others or to “ethics experts.” Ethics and the process of resolving ethical dilemmas is embedded within each person's responsibilities (in personal life, in an organizational role, or both). Ethics is everybody's business.

Personal integrity

Managers' decisions should matter to them personally, particularly if there are important values or commitments at stake about which they have strong feelings (i.e., particular decisions may make them feel very uncomfortable or violate their sense of integrity). The movie *City Slickers* has a scene highlighting this issue. In a conversation between Billy Crystal and one of his friends, the friend describes a scenario where Crystal could have one night of pleasure with the woman of his dreams, and no one would ever find out. If he had the chance, would he do it? Crystal responds by saying he would not, not because he was worried his wife might find out, but because *he* would know (i.e., he could not live with himself if he were unfaithful to his wife).

Legal reasoning is often inadequate

Doing what the letter of the law says may still leave a firm open to civil and or criminal suits. Adopting a law-based approach puts firms in an adversarial posture with respect to others,

which may be counterproductive to other objectives in facing a crisis, such as public trust (e.g., compare Johnson & Johnson in the Tylenol case with Burroughs Wellcome and the Sudafed tampering case). The U.S. Sentencing Commission Guidelines create incentives for firms to aim at ethical performances rather than legal compliance. Taking the high road can be both cost-efficient and important for satisfying basic objectives of the firm.

Putting Business and Ethics Together

Questions about right and wrong matter, and they can be asked in all areas of our lives. In the context of business, managers can think about the connection between business and ethics in two ways. The first and most common way is to conceptualize business and ethics as two distinct disciplines. Business is usually seen as being only about the numbers, and is hard, analytical, and factual, and the right thing to do is usually apparent from the analysis—do that which maximizes value for the shareholder. Ethics on the other hand is seen as “soft,” subjective, and relative. In this view ethics affects business like a tax—it is imposed from outside, usually by the government. It holds back manager’s maximization of profits and can encumber “good managerial practice.” Along with this view is the idea that ethics is only about curbing illegal business practices—the usual “don’t lie, don’t cheat, don’t steal” view of ethics. This view is called the *separation fallacy*.

The second view is that business and ethics are fundamentally connected. Both are “semisoft,” meaning that they are more like an art than a science, but that there can still be agreement on the fundamentals. In this view, every decision a manager makes has some ethical content, just as each decision can affect the financials of a business. Ethics is seen as fundamental to trade, rather than peripheral. Without norms of trust and honesty, trade and business are not possible. Ethics is about more than just avoiding illegal actions; it is about choosing between alternatives in a way that benefits rather than harms stakeholders. This view is called the *integration thesis*.

Many managers have been socialized and inculcated into one or another of these views. Each view guides managerial action in different ways, and managers have a choice about which view they will subscribe to—each view guides managerial action in different ways. The question of how to frame a situation is also a moral question. Regardless of which view managers subscribe to, they must have morally defensible reasons for doing so, as opposed to merely relying on gut reactions.

The Indispensability of Ethics to Leadership

Ethics is an inescapable part of management and leadership. All managerial decisions involve weighing harms and benefits to stakeholders, considering core principles, and asking questions about character. The challenge for leaders is thinking about how they want to manage and direct their organizations. Business management necessarily occurs in the realm of humans

and human relationships. Ethics pushes managers to think about their goals, core principles for action, and who they are trying to be on the way to creating organizational excellence.

A critical leadership test is to make decisions in challenging circumstances where the right thing to do isn't obvious. Making a decision and simply saying it was the right thing to do is not enough for leaders. They must understand the nuances and complexities to make good choices and to be persuasive in their ability to convince others that their decision is the best for the organization. It is precisely in those situations where the "right thing to do" isn't obvious that critical analysis and valid reasons for our decisions are especially important.

Unfortunately, ethics is not easy. What separates leaders from managers is their ability to energize and motivate themselves and others around moral goals and means, as well as their ability to be thoughtful in complex situations. Those managers who take ethics seriously are poised to enter into the realm of real leadership. The complexity of our lives can be an obstacle for those looking for a quick and easy path, but for those who choose to rise to the challenge of leadership, it provides great opportunity.