

5.3: Ethics and Business Ethics Defined

Learning Objectives

1. Understand what ethics and business ethics are

Ethics essentially involves how we act, live, lead our lives, and treat others. Our choices, decision-making processes, moral principles, and values governing our behaviors regarding right and wrong are also part of ethics (Hartman et al., 2018; Weiss, 2014).

Normative ethics refers to the field of ethics concerned with asking how we *should* and *ought* to live and act. **Business ethics** is applied ethics that focuses on real-world situations and the context and environment in which transactions occur—How should we apply our values to the way we conduct business?

Ethics and business ethics continue to gain influence in corporations, universities, and colleges nationally and internationally. No longer considered a luxury but a necessity, business ethics has awakened a need in the public consciousness due to crises in many areas. For example, the 2008 subprime lending crisis—the economic effects of which persist—revealed widespread corruption of large investment banks and lending institutions internationally. Unsupported mortgages were fraudulently offered with no legitimate financial backing. Some large financial institutions, such as Lehman Brothers Holdings, Inc., went bankrupt; millions of mortgage holders lost their homes. The estimated cost of that crisis to the global economy is over \$22 trillion U.S. dollars (Melendez, 2013).

In the early 2000s, CEOs and top-level leaders from notable corporations such as Enron, Tyco, WorldCom, and others were caught committing outrageously greedy and fraudulent crimes of white-collar theft from their organizations and shareholders. The now classic film *The Smartest Guys in the Room* depict how Enron's leaders during that time, Kenneth Lay (now deceased), Jeff Skilling (still serving prison time), and Andrew Fastow (released from prison in 2011), deceived employees, Wall Street, and shareholders. Enron's crisis took an estimated \$67 billion of shareholder wealth from the U.S. economy (Flanigan, 2002). These criminal activities ushered in national laws such as the Sarbanes-Oxley Act, which we discuss below.

While these recent historical crises illustrate the continuing relevance and importance of business ethics, ethical issues are not only concerned with financial and economically motivated crimes and misbehaviors. Fast forward to the rise of artificial intelligence (AI), which also calls attention to the relevance and need for ethics in scientific institutions, businesses, and governments. The public needs to be informed of potential and actual harmful consequences—as well as all the recognizable benefits—of these technologies that are in large part driven by algorithms (“a sequence of instructions telling a computer what to do”) (Auerbach, 2015). Intentional and unintentional misuses of such designs embedded in artificially intelligent technologies can negatively and harmfully affect individual lives as well as entire societies. For example, studies show that significant numbers of marginalized members of society are often discriminated against by institutions using faulty algorithms to qualify customers for mortgages and to predict who is at risk of being incarcerated. Often, racial and low-income minorities are discriminated against by such technology designs (Angwin et al., 2016).

At a societal level, another now classic film, *The Minority Report*, illustrates how misuses of technology can threaten individual rights, privacy, free will, and choice. While this may sound like science fiction, scientific and business luminaries such as Elon Musk, Stephen Hawking, Bill Gates, and others have openly declared that we as a society must be cautious, ethically aware, and active in fending off the ill effects of the control and dominant influences of certain AI algorithms in our lives. Scientific and ethical practices in corporate social responsibility (CSR) are one way that ethicists, business leaders, and consumers can support moral self-regulation of technologies. Some scientific and technological firms have adopted ethics boards to help safeguard against harmful social uses of AI technologies (Hern, 2018). The European Union (EU) has produced policy studies that are forerunners of laws to safeguard against potentially harmful uses of robotics (Nevejans, 2016).

Another timely ethical issue is climate change and the environment. Lack of sustainable environmental practices that curb air pollution and destructive uses of land, water, and natural resources have, according to a large community of reputable scientists, threatened Earth's—and our neighborhoods'—atmosphere (Ripple et al., 2017). Scientific studies and United Nations reports affirm that changes to the earth's atmosphere, melting glaciers, and rising seas are occurring at accelerated rates. For example, “California's coastline could rise up to 10 feet by 2100, about 30 to 40 times faster than sea-level rise experienced over the last century” (Chiu, 2017). While universities, businesses, and local community groups rally for legal actions to curtail and reverse environmental polluters, current political executive orders push against such regulations designed to protect against further erosion

of the physical environment (Friedman, 2018). The point here is that these issues described above are not only technological, economic, and political in nature, but also moral and ethical, as the public's health, welfare, and safety are at risk.

Relevant ethical questions can be asked to prevent a crisis: Who is responsible for preventing and addressing what happens to individuals, the public, our institutions, and government, and who is responsible for preventing such crises and harmful effects from occurring and reoccurring? At whose and what costs? Whose responsibility is it to protect and preserve the common good of societies? What ethical and moral principles should and can motivate individuals, groups, and society members to act to change course?

Universities and colleges are taking notice. Business ethics and corporate social responsibility courses and offerings are becoming increasingly important. The accrediting national body of business schools, AACSB (Association to Advance Collegiate Schools of Business), reported that "[i]n their curricula, research, and outreach, business schools must be advocates for the human dimension of business, with attention to ethics, diversity, and personal well-being" (AACSB, 2016). In addition, NGOs (nongovernmental organizations), emergent groups internationally representing the public's interests and the common good, and political action movements are beginning again to give voice to injustices and potentially dangerous ethical as well as fiscal (income inequality), health (the environment), and discriminatory (racism and stereotyping large segments of the society) problems that require **stakeholder** as well as stockholder actions.

In this chapter, we begin by presenting an overview of the dimensions of business ethics at the individual, professional, and leadership levels, followed by the organizational, societal, and global levels.

? Concept Check

1. What individual and organizational ethical issues can we expect to occur?
2. What are some signs of unethical activities you might notice individually and organizationally?

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