

1.7: Ethics - Doing the Right Thing

Business Ethics: The Power of Doing the Right Thing

Learning Objectives

- Understand ethics and what composes ethical behavior.
- Discuss the role of values in ethics.
- Understand how you define your personal code of ethics.

What Is Ethics?

Ethics is moral principles—it is a system that defines right and wrong and provides a guiding philosophy for every decision you make. The Josephson Institute of Ethics describes ethical behavior well: “Ethics is about how we meet the challenge of doing the right thing when that will cost more than we want to pay. There are two aspects to ethics: The first involves the ability to discern right from wrong, good from evil, and propriety from impropriety. The second involves the commitment to do what is right, good, and proper. Ethics entails action; it is not just a topic to mull or debate.” John C. Maxwell, *There’s No Such Thing As “Business” Ethics* (New York: Center Street, 2003), 23–24. Is it right? Is it fair? Is it equitable? Is it honest? Is it good for people? These are all questions of ethics. Manual Velasquez, Claire Andre, Thomas Shanks, and Michael J. Meyer, “What Is Ethics?” Santa Clara University, <http://www.scu.edu/ethics/practicing/decision/whatisethics.html> (accessed May 21, 2024). Ethics is doing the right thing, even if it is difficult or is not to your advantage.

Personal Ethics: Your Behavior Defines You

Ethics comes into play in the decisions you make every day. Have you ever received too much money back when you paid for something in a store, didn’t get charged for something you ordered at a restaurant, or called in sick to work when you just wanted a day off? Each of these is an **ethical dilemma**. You make your decision about which path to take based on your personal ethics; your actions reflect your own moral beliefs and moral conduct. Manual Velasquez, Claire Andre, Thomas Shanks, and Michael J. Meyer, “What Is Ethics?” Santa Clara University, <http://www.scu.edu/ethics/practicing/decision/whatisethics.html> (accessed May 21, 2024). Your ethics are developed as a result of your family, church, school, community, and other influences that help shape your personal beliefs—that which you believe to be right versus wrong. Manual Velasquez, Claire Andre, Thomas Shanks, and Michael J. Meyer, “Ethics and Virtue,” Santa Clara University, <http://www.scu.edu/ethics/practicing/decision/ethicsandvirtue.html> (accessed May 21, 2024). A good starting point for your personal ethics is the golden rule: “Do unto others as you would have them do unto you.” That is, treat people the way that you would like to be treated. You would like people to be honest with you, so be honest with others.

Your strong sense of personal ethics can help guide you in your decisions. You might be surprised to find yourself with an ethical dilemma about something that is second nature to you. For example, imagine that you’re taking a class (required for your major) that has an assignment of a twenty-page paper and you’ve been so busy with your classes, internship, and volunteer work that you really haven’t had the time to get started. You know you shouldn’t have waited so long and you’re really worried because the paper is due in only two days and you’ve never written a paper this long before. Now you have to decide what to do. You could knuckle down, go to the library, and visit the campus Writing Center, but you really don’t have the time to do all that and still write the entire twenty pages. You’ve heard about some people who have successfully bought papers from this one Web site. You’ve never done it before, but you are really desperate and out of time. “If I only do it this one time,” you think, “I’ll never do it again.”

But compromising your ethics even just once is a slippery slope. The idea is that one thing leads naturally to allowing another until you find yourself sliding rapidly downhill. Ethics is all about the art of navigating the slippery slope: you have to draw a line for yourself, decide what you will and won’t do—and then stick to it. If you don’t have a strong set of ethics, you have nothing to use as a guidepost when you are in a situation that challenges you morally. A highly developed set of personal ethics should guide your actions. The only way to develop a strong sense of ethics is to do what you believe in, to take actions consistent with your principles time and time again. So if you buy the paper and get caught, you will not only fail the class, but you may also find yourself expelled from school. If you’re tempted to consider buying a paper, take a minute to read your school’s academic dishonesty policy, as it is most likely very clear about what is right and wrong in situations like this. Even if you get away with using a paper that is not your own for now, it’s always possible that you’ll be found out later, and cause harm to your reputation. i

Do the Right Thing

If you rationalize your decisions by saying, “Everyone does it,” you should reconsider. **Unethical behavior** is not only what you believe to be right and fair, it is a reflection of your personal brand and what people can expect from you personally and professionally. The consequences of unethical behavior can range from embarrassment to suspension, loss of job, or even jail time, depending on the act.

You have no doubt heard the expression “Do the right thing.” It is the essence of ethics: choosing to do the right thing when you have a choice of actions. Being ethical means you will do the right thing regardless of whether there are possible consequences—you treat other people well and behave morally for its own sake, not because you are afraid of the possible consequences. Simply put, people do the right thing because it is the right thing to do. Thomas Jefferson summed up ethics in a letter he wrote to Peter Carr in 1785: “Whenever you are to do a thing, though it can never be known but to yourself, ask yourself how you would act were all the world looking at you, and act accordingly.” Gerhard Gschwandtner, “Lies and Deception in Selling: How to Tell When Customers or Prospects Are Lying to You,” *Selling Power* 15, no. 9, <http://www.sellingpower.com/content/article.php?a=4256> (accessed May 2021, 2024).

Ethical decisions are not always easy to make, depending on the situation. There are some gray areas depending on how you approach a certain situation. People have different approaches, so there may be multiple solutions to each ethical dilemma, and every situation may have multiple options. For example, if one of your best friends told you in confidence that he stole the questions to the final exam would you say nothing, use them, or report him? Certainly, using the questions would not be ethical, but your ethical dilemma doesn’t end there. Reporting him would be the right thing to do. But if you didn’t report him, would it be unethical? You might not consider that unethical, but what if you just didn’t say anything—is that still ethical? This is the gray area where your personal ethics come into play. Looking the other way doesn’t help him or you. While you might be concerned about jeopardizing your friendship, it would be a small price to pay compared with jeopardizing your personal ethics.

Business Ethics: What Makes a Company Ethical?

Ethics apply to businesses as well personal behavior. **Business ethics** is the application of ethical behavior by a business or in a business environment. An ethical business not only abides by laws and appropriate regulations, it operates honestly, competes fairly, provides a reasonable environment for its employees, and creates partnerships with customers, vendors, and investors. In other words, it keeps the best interest of all **stakeholders** at the forefront of all decisions.

An ethical organization operates honestly and with fairness. Some characteristics of an ethical company include the following:

- Respect and fair treatment of employees, customers, investors, vendors, community, and all who have a stake in and come in contact with the organization
- Honest communication to all stakeholders internally and externally
- Integrity in all dealings with all stakeholders
- High standards for personal accountability and ethical behavior
- Clear communication of internal and external policies to appropriate stakeholders

High-Profile Unethical Behavior in Business

While ethical behavior may seem as if it is the normal course of business, it’s unfortunate that some business people and some businesses do not operate ethically. Unethical behavior can result in corporate scandals and, in some cases, the conviction of senior executives and collapse of some companies. While business has never been immune from unethical behavior, it was the fall of Enron in 2001 that brought unethical business behavior on the part of senior executives to the forefront. Enron began as a traditional energy company in 1985. But when energy markets were deregulated (prices were determined based on the competition rather than being set by the government) in 1996, Enron grew rapidly. The company began to expand to areas such as Internet services and borrowed money to fund the new businesses. The debt made the company look less profitable, so the senior management created partnerships in order to keep the debt off the books. In other words, they created “paper companies” that held the debt, and they showed a completely different set of financial statements to shareholders (owners of the company) and the government (U.S. Securities Exchange Commission [SEC]). This accounting made Enron look extremely profitable—it appeared to have tripled its profit in two years. As a result, more people bought stock in the company. This lack of disclosure is against the law, as publicly traded companies are required to disclose accurate financial statements to shareholders and the SEC. There began to be speculation about the accuracy of Enron’s accounting, and on October 16, 2001, the company announced a loss of \$638 million. On October 22 of that year, the SEC announced that Enron was under investigation. The stock price continued to fall, and

the company was unable to repay its commitments to its shareholders. As a result of this unethical and illegal behavior on the part of senior management, the company filed for chapter 11 bankruptcy protection. NewsHour Extra, “What Happened to Enron?” Paul Solman, PBS, January 22, 2002, www.pbs.org/newshour/extra/features/jan-june02/enron_past.html (accessed December 6, 2009). The unethical (and illegal) behavior of the senior management team caused a ripple effect that resulted in many innocent people losing their money and their jobs. As a result of the Enron scandal, a new law named the **Sarbanes-Oxley Act** (for Senator Paul Sarbanes from Maryland and Representative Michael Oxley from Ohio) was enacted in 2002 that requires tighter financial reporting controls for publicly traded companies. SearchCIO, “Sarbanes-Oxley Act,” http://searchcio.techtarget.com/sDefinition/0,,sid182_gci920030,00.html (accessed May 21, 2024).

The epitome of unethical (and illegal) behavior was Bernard Madoff, who was convicted of running a \$65 billion fraud scheme on his investors. For years, he reported extremely high returns on his clients’ investments, encouraging them to reinvest with even more money. All the time he was stealing from his clients and spending the money. He cheated many clients, including high-profile celebrities like actor Kevin Bacon and his wife Kyra Sedgewick and a charity of Steven Spielberg’s. “Bernie Madoff Ponzi Scheme: Victim List Grows,” *Huffington Post*, December 15, 2017, http://www.huffingtonpost.com/2008/12/15/bernie-madoff-ponzi-scheme_n_151018.html (accessed May 21, 2024). He was arrested, tried, and sentenced to 150 years in jail, and his key employees were also sentenced to similar terms.

Ethical Dilemmas in Business

Not all behavior that is unethical is illegal. Companies frequently are faced with ethical dilemmas that are not necessarily illegal but are just as important to navigate. For example, if a travel company wants to attract a lot of new customers, it can honestly state the price of a trip to Disney World in its advertising and let customers decide if they want to purchase the trip. This would be ethical behavior. However, if the company advertises a free vacation in order to get customers to call, but the free vacation package includes a \$500 booking fee, it is unethical. Or if an appliance store wants to get new customers by advertising a low-priced refrigerator, it is an ethical way to let customers know that the company has competitively priced appliances as well. However, if the store only has a higher-priced refrigerator in stock and tries to sell that one instead, it is unethical behavior.

Sometimes ethical behavior can be a matter of disclosure, as in the case of Enron, Bernie Madoff, or the examples above. Business ethics can also be challenged based on business practices. For example, in the 1990s Nike was accused of exploiting workers in third-world countries to manufacture their products. The low wages they were paying the workers made Nike’s profits higher. While this is not illegal behavior—they were paying the workers—it was considered unethical because they were paying the workers less than what is reasonable. “Sweatshops Almost Killed Nike in the 1990s, Now There are Modern Slavery Laws” *The Fashion Law*, Septemb 27, 2019 <https://www.thefashionlaw.com/visibi...-need-to-know/> (accessed May 221, 2024). Another example of unethical behavior is not disclosing information. For example, if a car salesperson knows that a used car he is selling has been in an accident but says that it has not been involved in an accident, that is unethical. Bribing an executive, saying or promising things that are knowingly untrue, or treating employees unfairly are all examples of unethical behavior in business.

Corporate Social Responsibility

You may choose to shop at companies because of their business practices. For example, you might like The Body Shop because of its commitment to selling products that do not use animals for testing. This is a case of ethical behavior that is socially responsible. In fact, **corporate social responsibility (CSR)** is when companies operate in a way that balances the interests of all stakeholders including employees, customers, investors, vendors, the community, society, and any other parties that have a stake in the company. While corporate social responsibility may seem easy, it’s not always as easy as it looks. Keep in mind that in order to be socially responsible a company has to balance the social, economic, and environmental dimensions, which means generating a profit for investors while serving the best interest of all parties that have a stake in the operations of the company. When companies measure the impact of their performance along the three dimensions of social, economic, and environmental impact, it is called the **triple bottom line**.

Good Ethics = Good Business

The impact of ethical behavior by companies cannot be underestimated. It’s no surprise that companies that consistently demonstrate ethical behavior and social responsibility generate better results. In successful companies ethics is so integrated into the organization that it defines how every employee from CEO to the lowest-level employee behaves. Ethics is not a separate topic but is incorporated into company strategy. The company makes ethics part of every activity from strategic planning to operational execution. For example, Target has been committed to the triple bottom line even before it was in vogue when the company’s

founder, George Draper Dayton, established a foundation to give back to the community. The company's commitment has grown, and since 1946 it has donated 5 percent of its income every year. Target's Corporate Responsibility Report is information that the company makes available to everyone on its website <https://corporate.target.com/sustain...target-forward> (accessed May 21, 2024).

Ethical Behavior in Sales

One of the most visible positions in any organization in terms of ethics is *sales*. That's because it is the salesperson that comes in contact directly with the customer. What the salesperson says and does is a direct reflection of the organization and its ethics.

Consider this ethical dilemma if you were a real estate agent. You have just landed a fantastic listing: a home that in the hot neighborhood that will surely sell quickly and yield a nice commission for you. The seller tells you that the home inspector suspects there is insect damage to the siding of the house, but the seller says she has never had any problems. Also, the seller feels so strongly about not disclosing this information to prospective buyers that she said she would rather go with a different agent if you insist on disclosing the possible insect damage. What would you do?

In a situation like this, it's best to remember that doing the right thing can be a hard choice and might not be advantageous to you. Although you really don't want to lose this listing, the right thing to do is to disclose anything that affects the value or desirability of the home. Even if you think it might not be a major issue, it's always best to err on the side of honesty and disclose the information. Either withholding or falsifying information is lying and therefore unethical.

Imagine that you are a financial planner responsible for managing your clients assets. You make your income on commission, a percentage of the value of your clients' portfolios; the more you increase his portfolio, the more money you make. One of your clients is a very conservative investor; right now you are not making much money from his account. You have an opportunity to sell him a high-return investment, but the risk is far greater than you think he would normally take. You think you can sell him on it if you leave out just a few details during your conversation. The investment will actually be good for him because he will get a significant return on his investment, and besides, you're tired of spending your time on the phone with him and not making any money. This could be a win-win situation. Should you give him your pitch with a few factual omissions or just make the investment and tell him after the money starts rolling in? After all, he doesn't look at his account every day.

Even though the result of the investment could be a good one, it is your obligation to provide full disclosure of the risk and let the customer make the investment decision. You should never make assumptions and decisions on behalf of your customers without their consent. If you are frustrated about your lack of income on the account, you might not be the best financial planner for him. You should have an honest conversation with him and perhaps suggest a colleague or other planner that might be a better fit for his investment strategy. Sometimes it's better to part ways than to be tempted to behave unethically.

✓ Just Say No

What if your employer asked you to do something that you are not comfortable doing? For example, if your employer asked you to complete the paperwork for a sale even if the sale hasn't been made, what should you do? It's best to say that you are not comfortable doing it; never compromise your personal ethics even for your employer. It's also a good idea to see someone in the human resources department if you have any questions about the best way to handle a specific situation.

What if you were a salesperson for a textbook company and you are only \$1,000 away from your \$1 million sales goal. If you make your goal, you'll earn a \$10,000 bonus, money you've been counting on to put a down payment on your first house. But the deadline is only two days away, and none of your customers is ready to make a purchase. You really want the bonus, and you don't want to wait until next year to earn it. Then you remember talking to one of the administrators, and she mentioned the need for donations. What if you made a \$1,000 donation to the school. It would help the school during this challenging financial crisis and it would be more inclined to make a purchase quickly. After the donation, you would still have \$9,000. This could be a good move for everyone. Would you make the donation to "buy" your bonus?

When you are in sales, you are not only representing yourself, but you are also representing your company. Although it appears that all parties will benefit from the donation, it is not ethical for the school, you, or your company to make an exchange like that. Products such as textbooks should be purchased based on the organization's buying process. Donations should be made with no strings attached. You might miss the opportunity to earn your bonus this year, but you will learn valuable lessons to make next year an even better sales year. Shel Horowitz, "Should Mary Buy Her Own Bonus?" *Business Ethics*, November 11, 2009, <http://business-ethics.com/2009/11/11/should-mary-buy-her-bonus> (accessed May 21, 2024).

Imagine that you are a sales rep for a software company and you've just taken a customer to lunch. It was an expensive restaurant, and the two of you thoroughly enjoyed yourselves; you had steak, wine, and a chocolate dessert. Now you're filling out an expense report, and you need to fill in the amount of tip you left. In fact, you left a twenty-dollar bill—but forty dollars wouldn't have been an unreasonable amount to leave for outstanding service. You could fill in the higher amount and use the difference to take your girlfriend to the movies; you've been meaning to spend more time with her. After all, you make a lot of money for the company and have been working a lot of nights and weekends lately. You also didn't submit your expense account for the mileage you traveled last week, so this should make up for it. Is it OK to submit the additional tip money on this expense report?

It's no surprise that it's never acceptable to falsify information on an expense report (or any report for that matter). If you have legitimate expenses, they should be submitted according to the company policy. While it's hard to keep up with the paperwork, it's the right way to report and be reimbursed for company expenses. This can be another one of those slippery slope arguments; if you do it once, you might be tempted to do it again. Many people in many companies have been fired for providing false information on their expense reports.

Personal ethics and business ethics are a part of everyday selling. It's a good idea to remember the words of Peter Drucker, famous management consultant and author, "Start with what is right, rather than what is acceptable."

? Is the Customer Always Right?

The customer is always right, except when he asks you to do something unethical. What should you do to uphold your ethics and maintain your relationship? SellingPower.com suggests the following four steps:

Evaluate the situation with a clear head. Most unethical behavior is driven by emotions such as fear, greed, stress, and status. Identify what is causing the behavior but wait until you have some time to reflect. Don't jump to conclusions; identify the circumstances. You might not know the entire story so determine what you know and what you don't know. Identify the criteria you are using to make this judgment. Is the behavior against company policy? Is it against the law? Is it against your personal code of ethics? Seek counsel. Always ask a trusted colleague, supervisor, or human resources representative for advice. Chances are, she has experienced the same situation and can provide insight from the company's perspective and policies.

Understanding Values

Ethics are defined by moral principles; they are actions that are viewed by society as "right," "just," or "responsible." **Values** define what is important to you: they are your guiding principles and beliefs, they define how you live your life, and they inform your ethics. While certain values might be important to you, they may not be important to your best friends or even every member of your family. While family, friends, and your environment have a significant influence, you develop your own set of values. Consider the list below, which includes some examples of values:

- Honesty
- Open communication
- Teamwork
- Integrity
- Prestige
- Security
- Helping others
- Loyalty
- Social responsibility
- Impact on society
- Creativity
- Achievement
- Global focus
- Religion

Values provide your personal compass and your direction in life. When something is not in line with your values, you feel unhappy and dissatisfied. Examples of this are evident during political elections when people take sides on issues such as education, health care, and other social issues that reflect personal values. You might be surprised to learn that your values are not set in stone. Your personal values will evolve and may even change drastically based on your experiences.

Values of Organizations

Just like people, organizations have values, too. Values are “proven, enduring guidelines for human conduct” according to Stephen Covey in his book *Principles*. Thomas E. Ambler, “The Strategic Value of Values,” Center for Simplified Strategic Planning, <http://www.cssp.com/CD0402/ValuesAndStrategy/default.php> (accessed May 21, 2024). Many companies choose their values and communicate them to employees, customers, and vendors on the company Web site and other company communications. For example, Whole Foods includes the following values, among others: “selling the highest quality natural and organic products available” and “caring about communities and their environment.” You can see their entire values statement on their website. Levi Strauss & Co. identifies four key values for their company: empathy, originality, integrity, and courage. Their values statement is also included on their website, here: <https://www.levistrauss.com/2017/01/...ues-in-action/> Microsoft includes integrity, honesty, personal excellence, passion for technology, and commitment to customers as part of their values statement on their website, here: <https://www.microsoft.com/en-us/about/values>

Company values and personal values are important because your values motivate you to work. You will enjoy and excel at your job if you choose a company whose values you share. For example, if the environment is one of your values, it’s best to choose a company that includes a commitment to the environment as part of their values statement. Chances are you won’t be happy working at a company that doesn’t put a priority on the environment.

Mission Statements: Personal and Corporate Guidelines

Ethics and values are major concepts. If you have developed personal ethics and values, you might be wondering how they come together to help provide a roadmap for your life and your career. That’s the purpose of your mission statement; it becomes your roadmap for your decisions, choices, and behavior. Mission statements such as “To gain experience in the public accounting field toward earning my CPA designation” and “To master the leading Web development tools and become a best-in-class Web developer” may sound simple, but each takes time, thought, and insight to create. “*How to Write a Personal Mission Statement*”, <https://www.livecareer.com/resources/careers/planning/creating-personal-mission-statements>, (accessed May 23, 2024).

Just as your personal mission statement is a blueprint for how you make decisions in life, companies also use a mission statement to define their direction, make operating decisions, and communicate to employees, vendors, shareholders, and other stakeholders. In fact, most companies have a formal, written mission that they include on their Web site. A mission statement is different than an advertising slogan or motto. It is based on the company’s ethics and values and provides a broad direction as to what the company stands for. For example, Harley-Davidson’s mission statement is below and can be found on their Web site.

Character and Its Influence on Selling

As you have probably figured out, ethics, values, and missions are all very personal. Together they guide you in the way you behave at home, school, work, or out with your friends. Your **character** is what sets you apart; it includes the features and beliefs that define you. It’s no surprise that the word has its origin in the Latin word *character*, which means mark or distinctive quality and from the Greek *charaktr*, which means to scratch. “Character,” *Merriam-Webster Online Dictionary*, [mw1.merriam-webster.com/dictionary/character](https://www.merriam-webster.com/dictionary/character) (accessed May 21, 2024). The Josephson Institute defines character as being composed of six core ethical values:

- Trustworthiness
- Respect
- Responsibility
- Fairness
- Caring
- Citizenship Josephson Institute, “The Six Pillars of Character,” Josephson Institute, charactercounts.org/sixpillars.html (accessed May 21, 2024).

This is a comprehensive description of character. Consider how you perceive other people; it’s their character that defines who they are. Can you depend on him? Is she fair? Does he respect you? Just as these ethical pillars define other people’s character, they also define your character to other people. Customers ask the same questions about you: Can I trust her? Will he give me fair pricing? Is she honest? Does he care about the best interest of my business?

The Power of Your Reputation

Your overall character as judged by other people is your **reputation**. “Reputation,” *Merriam-Webster Online Dictionary*, <http://www.merriam-webster.com/dictionary/reputation> (accessed May 21, 2024). Consider some celebrities who have had unethical acts negatively impact their reputation: Tiger Woods, known as one of golf’s greats was reduced to tabloid fodder after the news of his extramarital affairs; Michael Phelps, the only person to ever win eight gold medals in a single Olympic Games, became the poster boy for marijuana use. Both had stellar reputations and were considered role models. Both have worked hard to gain back the trust of the public. Reputation isn’t limited to the wealthy or powerful. In high school, you knew that Sharon was a brain and Timothy was the sensitive, poetic type. You may never have had a conversation with either one of them, but you knew their reputations. Meanwhile, you avoided classes with Mrs. Avar because she had a reputation as a hard grader. Your reactions to many of the people in your day-to-day life are affected by their reputations.

When you work in sales, you are selling yourself; you will have greater success with customers if you are someone they want to “buy.” When customers buy from you, they are investing in your reputation. In other words, every action you take affects your reputation. If you fail to follow up, forget details, or even if you are consistently late for meetings, you may become known as unreliable. On the other hand, if you consistently deliver what you promise, you will be known as reliable; if you always meet your deadlines, you will have a reputation for punctuality.

Key Takeaways

- **Ethics** is moral principles, a system that defines right and wrong.
- **Business ethics** is ethical behavior applied to a business situation.
- An **ethical dilemma** is a situation that is presented with options that may be right or wrong.
- **Values** define what is important to you: they are your guiding principles and beliefs, they define how you live your life, and they inform your ethics.
- A mission statement is a roadmap of where a person or company wants to go.
- Your **reputation** will affect how people see you throughout your life, which can have either a positive or a negative impact on your career.
- Every action you take defines you; bear that in mind when making decisions.
- If you find yourself in a situation that challenges your ethics, talk to your supervisor. If you don’t feel that you can talk to your supervisor, talk to someone in the human resources department.
- A good rule of thumb is that if you would be ashamed to tell your boss about it, don’t do it.

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