

13.8: Why It Matters- Ethics in Business

Why does a manager need to understand ethics in business?



The events leading to the Great Recession highlighted the importance of ethics in business.

Why is the study of ethics important? Given all the things that a student of management needs to learn, why include ethics? In this module, you'll begin to understand just how much of an impact the decisions that businesses make can have on society. Let's start with a recent historical example.

The Great Recession was a period of significant economic stress that the United States faced during 2008 and 2009. The nation experienced massive job loss, a significant stock market swing, and the collapse of the housing market. But what does this have to do with ethics?

If you've read the book *The Big Short* by Michael Lewis or seen the movie of the same name, then you'll recall that one of the primary reasons for the collapse of the housing market was that many mortgages were extended to individuals who were terrible credit risks. These mortgages were known as "liar loans" because borrowers could put almost anything on a mortgage application, and lenders were not confirming the information. The lenders adopted these practices because they could easily sell these loans, and they were making a lot of money. They were willing to put aside ethics and overlooked their responsibility to verify the accuracy of the information on the loan applications they were approving.

Another factor was that all of these loans were being packaged together to be sold as a financial product called a collateralized mortgage obligation, or CMO. These CMOs were reviewed by many of the large credit rating agencies and given the highest credit ratings. In truth, the rating agencies were not fulfilling their obligation to thoroughly analyze these products because they were being paid millions of dollars by the financial institutions that were selling them.

Your study of ethics in this module will help you understand how to evaluate situations like these. Why is it important to have ethical standards in business, and how can managers ensure that employees act ethically? These are important questions given that businesses are part of the social fabric that makes up our culture.

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