

1.5: Ethics

LEARNING OBJECTIVES

1. Define ethics.
2. Explain business ethics.
3. Describe small business ethics.
4. Understand why a small business should have an ethics policy.

Ethics are about doing the right thing. They are about well-based standards of right and wrong that prescribe what humans ought to do—usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. Manuel Velasquez et al., “What Is Ethics?,” *Santa Clara University: Markula Center for Applied Ethics*, 2010, accessed October 7, 2011, www.scu.edu/ethics/practicing/decision/whatisethics.html. They serve as guidelines for making decisions about how to behave in specific situations; they also guide us in evaluating the actions of others. Daniel J. Brown and Jonathan B. King, “Small Business Ethics: Influences and Perceptions,” *Journal of Small Business Management* 11, no. 8 (1982): 11–18. Hopefully, they will provide us with a good understanding of how to react to situations long before those situations occur.

What Ethics Are Not

It is important to understand what ethics are *not*. “A Framework for Thinking Ethically,” *Santa Clara University: Markula Center for Applied Ethics*, 2009, accessed October 7, 2011, www.scu.edu/ethics/practicing/decision/framework.html.

- **Ethics are not the same as our feelings.** Our feelings are not always accurate indicators about a particular action being unethical (e.g., taking a long lunch or spending too much personal time on the Internet while at work). We all develop defense mechanisms to protect ourselves, so we may not feel badly about a particular unethical act. Some people may actually feel good about behaving unethically.
- **Ethics are not the same as religion.** Most religions champion high ethical standards, but not everyone is religious. Ethics apply to everyone.
- **Ethics are not necessarily synonymous with the law.** There will be instances in which ethical behavior and the law are the same (e.g., in the cases of murder, discrimination, whistleblower protection, and fraud). Such instances are illustrative of a good legal system. There will, however, be times when the law takes a different path than ethics—the result being ethical corruption that serves only the interests of small groups.
- **Ethics are not about following cultural norms.** Following cultural norms works only for ethical cultures. Although most cultures probably like to see themselves as ethical, all societies have been and will be plagued with norms that are unethical (e.g., slavery in the United States prior to the Civil War and sweatshops in developing countries).
- **Ethics are not synonymous with science.** Science cannot tell us what to do. The sciences can provide us with insights into human behavior, but ethics provides the reasons and the guidance for what we should do.
- **Ethics are not the same as values.** Although values are essential to ethics, the two are not synonymous. **Values** are enduring beliefs that a given behavior or outcome is desirable or good. Milton Rokeach, *The Nature of Human Values* (New York: Free Press, 1973), 5, as cited in Wayne D. Hoyer and Deborah J. MacInnis, *Consumer Behavior* (Boston: Houghton Mifflin, 2001), 416. They create internal judgments that will determine how a person actually behaves. Ethics determine which values should be pursued and which should not. Jeff Landauer and Joseph Rowlands, “Values,” *Importance of Philosophy*, 2001, accessed October 7, 2011, www.importanceofphilosophy.com/Ethics_Values.html.

Why Ethics Are Important

Ethics are important because they provide structure and stabilization for society. They help us to understand what is good and bad, and this helps us to choose between right and wrong actions. Without ethics, our actions would be “random and aimless, with no way to work toward a goal because there would be no way to pick between a limitless number of goals.” Jeff Landauer and Joseph Rowlands, “Values,” *Importance of Philosophy*, 2001, accessed October 7, 2011, www.importanceofphilosophy.com/Ethics_Values.html. Ethics do not provide easy answers to hard questions, but they do provide a framework within which to seek the answers.

Business Ethics

Business ethics is applying the virtues and discipline of ethics to business behavior. They set the standard for how your business is conducted and define the value system of how you operate in the marketplace and within your business. “Business Ethics,” *Small Business Notes*, accessed October 7, 2011, www.smallbusinessnotes.com/operating/leadership/ethics.html. They are relevant to any and all aspects of business conduct: workplace issues, product and brand, corporate wrongdoing, professional ethics, and global business ethics. They apply equally to the individual who works for the company and to the company itself because all ethical and unethical business behavior eventually finds its way to the bottom line. It is almost a certainty that someone will encounter an ethical dilemma at some point in his or her professional life.

THIS HAS DISAPPEARED SHOULD WE JUST ELIMINATE IT

VIDEO LINK 1.1

Business Ethics in the Twenty-First Century

A PBS documentary about business ethics and social responsibility.

<http://watch.wliw.org/video/1316867588>

Do Business Ethics Pay?

Asking whether business ethics pay may be the wrong question to ask. Behaving ethically should happen because it is the right thing to do. However, companies large and small are in the business of making money, so the question is not an unreasonable one. Good ethics carry many benefits, not the least of which is financial good health. Companies that “outbehave” the competition ethically will also tend to outperform them financially. Richard McGill Murphy, “Why Doing Good Is Good for Business,” *CNNMoney.com*, February 2, 2010, accessed October 7, 2011, money.cnn.com/2010/02/01/news/companies/dov_seidman_lm.fortune. According to an Institute of Business Ethics report, companies with a code of conduct generated significantly more economic value added and market value added than those companies without a code, experienced less price to earnings volatility, and showed a 50 percent increase in average return on capital employed. Simon Webley and Elise More, “Does Business Ethics Pay?,” *Institute of Business Ethics*, 2003, accessed October 7, 2011, www.ibe.org.uk/userfiles/doesbusethicpaysumm.pdf.

Business ethics also pay in other ways that will improve the workplace climate and, ultimately, positively impact the bottom line. They can “reduce incidents of corruption, fraud, and other malpractices; enhance the trust of customers, suppliers and contractors; enhance the credibility of buyers and salespersons; and enhance the loyalty and goodwill of employees, shareholders and customers.” Simon Webley and Elise More, “Does Business Ethics Pay?,” *Institute of Business Ethics*, 2003, accessed October 7, 2011, www.ibe.org.uk/userfiles/doesbusethicpaysumm.pdf.

The Costs of Unethical Business Conduct

By contrast, the costs of unethical business behavior can be staggering. Some of the costs include the loss of physical assets, increased security, the loss of customers, the loss of employees, the loss of reputation, legal costs, the loss of investor confidence, regulatory intrusion, and the costs of bankruptcy. According to a report by the Josephson Institute, “The Hidden Costs of Unethical Behavior,” *Josephson Institute*, 2004, accessed October 7, 2011, josephsoninstitute.org/pdf/Report_HiddenCostsUnethicalBehavior.pdf, unethical business behavior has an adverse impact on sales, stock prices, productivity, the performance of the highly skilled employees, efficiency, communication, and employee retention and recruiting plus the risks from scandal and employee fraud.

The costs of employee theft are particularly daunting. An estimated 75 percent of employees steal from the workplace, and most do so repeatedly. One third of all US corporate bankruptcies are caused directly by employee theft; US companies lose nearly \$400 billion per year in lost productivity due to “time theft” or loafing; and an estimated 20 percent of every dollar earned by a US company is lost to employee theft. Terrence Shulman, “Employee Theft Statistics,” *Employee Theft Solutions*, 2007, accessed October 7, 2011, www.employee theft solutions.com. Office supplies, money, and merchandise are the most frequently stolen items. Leslie Taylor, “Four in 10 Managers Have Fired Employees for Theft,” *Inc.*, September 1, 2006, accessed October 7, 2011, www.inc.com/news/articles/200609/theft.html?partner=rss. Employee theft may be even more of a concern to small businesses because many small businesses operate so close to the margin. It has been estimated that theft by small business employees totals nearly \$40 billion each year. Mary Paulsell, “The Problem of Employee Theft,” *MissouriBusiness.net*, October 10, 2007, accessed October 7, 2011, www.missouribusiness.net/sbtcd/docs/problem_employee_theft.asp.

Video Clip 1.5.1:

Business Ethics with Sound



Do not steal time at work

Small Business Ethics

In business, it is common for there to be conflicts between business success and ethical behavior. When faced with an ethical dilemma, the decision may be unduly influenced by profits and legality. This challenge is particularly acute for small business owners because they are so much closer to the employees and the customers. The results of ethical decisions will be felt more immediately by the entire company. Karen E. Klein, "Making the Case for Business Ethics," *Bloomberg BusinessWeek*, April 26, 2010, accessed October 7, 2011, www.BusinessWeek.com/smallbiz/content/dec2008/sb20081230_999118.htm.

Small-business owners will find themselves confronted more often with ethical choices because of the decision-making autonomy that they have; there is no need to answer to a large number of employees, corporate management, or a corporate board. The ethical choices that are made will likely impact a far greater number of people than will the ethical decisions of individual employees. Many business decisions will pose ethical challenges—examples being whether to use inferior materials to produce products because of competition with larger businesses, employee and workplace problems, product quality and pricing, legal problems, and government regulatory concerns. Jeffrey S. Hornsby et al., "The Ethical Perceptions of Small Business Owners: A Factor Analytic Study," *Journal of Small Business Management* 32 (1994): 9–16, adapted. The pressure to make an unethical choice on behalf of the small business can be very powerful, especially when the health and vitality of the business may be at stake. "Business Ethics," *Answers.com*, 2001, accessed October 7, 2011, www.answers.com/topic/business-ethics. Fortunately, the chances of an unethical decision being made in a small business are lower because the individual or individuals who are harmed will always be more visible. It is more difficult for the small business owner to be unethical. Ultimately, small business owners will behave in accordance with "their own moral compass, sense of fair play and inclination to deal in good faith." Jim Blasingame, "Small Business Ethics," *Small Business Advocate*, August 13, 2001, accessed October 7, 2011, www.smallbusinessadvocate.com/motivational-minutes/small-business-ethics-22.

According to one study, Daniel J. Brown and Jonathan B. King, "Small Business Ethics: Influences and Perceptions," *Journal of Small Business Management* 11, no. 8 (1982): 11–18. Small businesses see norms and pressures from the community and peers as having more influence on their ethics than moral or religious principles, the anticipation of rewards, upholding the law, or the fear of punishment. This leads to the conclusion that small business is influenced significantly by the communities in which their businesses are located. Socially responsive behavior is visible and it is "rewarded or sanctioned by local residents through changes in employee morale, performance, and turnover; customer loyalty; and positive interactions with business service professionals, suppliers, local government officials, and business colleagues. These local sanctioning mechanisms [in turn affected] the success of the business." Terry L. Besser, "Community Involvement and the Perception of Success among Small Business Operators in Small Towns," *Journal of Small Business Management* 37, no. 4 (1999): 16–29.

Because of this community influence, customer relationships are and must be based on trust and the relatively immediate visibility of ethical behavior. It is perhaps not surprising that people in small business are ranked number one on ethical standards ahead of physicians, people in big business, and government officials. Daniel J. Brown and Jonathan B. King, "Small Business Ethics: Influences and Perceptions," *Journal of Small Business Management* 11, no. 8 (1982): 11–18.

Developing an Ethics Policy

The small business owner is in a unique position to set the ethical tone for the business. Employees will follow the lead of the owner when executing their duties and tending to their responsibilities, so it is critical that the owner establish an ethical work environment. "Business Ethics," *Answers.com*, 2001, accessed October 7, 2011, www.answers.com/topic/business-ethics. Establishing an **ethics policy (code of conduct or code of ethics)** is an important step in creating that environment. Employees who work in companies with active ethics programs; who observe leaders modeling ethical behavior; and who see honesty, respect, and trust applied frequently in the workplace have reported more positive experiences that include the following: Natalie Rhoden, "Ethics in the Workplace," *Articlesbase*, November 5, 2008, accessed October 7, 2011, www.articlesbase.com/human-resources-articles/ethics-in-the-workplace-629384.html.

- Less pressure on employees to compromise ethics standards
- Less observed misconduct at work
- Greater willingness to report misconduct
- Greater satisfaction with their organization's response to misconduct they report
- Greater overall satisfaction with their organizations
- Greater likelihood of "feeling valued" by their organizations

These positive work experiences would be even more notable in small businesses because of the smaller number of employees.

Employee perceptions of their organization's ethical leadership may well be the most important driver of employee trust and loyalty. Jennifer Schramm, "Perceptions on Ethics," *HR Magazine*, November 2004, 176. Having an ethical culture should, therefore, be a top priority for every small business.

Many small business owners may feel that a code of ethics is unnecessary. However, the benefit of having such a code is higher employee morale and commitment, more loyal customers, and a more supportive community. Even the nonemployee small business benefits. A code of ethics puts your business in a more positive, proactive light, and it spells out to customers and employees what behavior is and is not appropriate. Jeff Wuorio, "Put It in Writing: Your Business Has Ethics," *Microsoft Small Business*, 2011, accessed October 7, 2011, www.microsoft.com/business/en-us/resources/management/leadership-training/put-it-in-writing-your-business-has-ethics.aspx?fbid=WTbndqFrlli.

There is no recipe for developing an ethics policy. Its development may involve no one other than the small business owner, but it should involve several people. The contents should be specific to the values, goals, and culture of each company, and it should be "a central guide and reference for users in support of day-to-day decision making. It is meant to clarify an organization's mission, values, and principles, linking them with the standards of professional conduct." "Why Have a Code of Conduct," *Ethics Resource Center*, May 29, 2009, accessed October 7, 2011, www.ethics.org/resource/why-have-code-conduct. Small-business owners must decide what will make the most sense for their companies. Jeff Wuorio offered the following eight guidelines: Jeff Wuorio, "Put It in Writing: Your Business Has Ethics," *Microsoft Small Business*, 2011, accessed October 7, 2011, www.microsoft.com/business/en-us/resources/management/leadership-training/put-it-in-writing-your-business-has-ethics.aspx?fbid=WTbndqFrlli.

1. **Focus on business practices and specific issues.** The content of one company's code of ethics will differ from that of another.
2. **Tailor it to fit your business.** One size does not fit all. Make sure your code of ethics reflects the values and mission of your company.
3. **Include employees in developing a code of ethics.** A mandate from the small business owner will not be effective. Get input from your employees whenever possible. They will be more accepting of the ethics policy.
4. **Train your people to be ethical.** The extent and nature of employee education and training will depend on the size of the small business. Even the smallest business, however, will benefit from some ethics training.
5. **Post your code of ethics internally and set up a reporting system.** Employees need a way to let someone know about ethics violations. Both an open-door policy and an anonymous reporting system will be helpful.
6. **Consider appointing a compliance person.** This would probably not be appropriate for the very small businesses. However, it would be worth considering if the business has fifty or more employees. Having someone to whom employees can report

suspected ethical problems would make things much simpler.

7. **Follow up on any ethics violations you uncover.** Make sure that everyone understands the ramifications of ethics policy violations. Include an appeals process. If a small business owner fails to act on ethics violations, employees will not take the policy seriously.
8. **Live it from the top down.** The small business owner must walk the talk. No one should appear to be above the code of ethics. Good role modeling is critical.

The actual development of a code of ethics can be done by starting from scratch, hiring a consultant, or customizing a code from another organization. Before making a choice, it would be worth doing some research. A good place to start would be www.conductcode.com, a website that looks at codes of conduct from a practitioner approach. A search of the Internet will provide examples of codes of ethics, but there is a bias toward larger companies, so small business owners will have to pick and choose what will be best suited to their respective companies.

Ethical Behavior Survey

The Ethics Resource Center conducted a survey of employees at large and small businesses and found the following:

- Fifty-six percent of the employees had witnessed misconduct by other employees that violated the firm's ethics standards or policies or the law.
- Fifty-four percent of the employees who had witnessed misconduct believed that reporting the misconduct would not lead to corrective action.
- Forty-two percent of the employees who had witnessed misconduct reported it. The percentage rose to 61 percent for employees whose employers have a well-implemented ethics and compliance program.
- Thirty-six percent of the employees who had witnessed misconduct but did not report it cited fear of retaliation as their reason for not reporting it. Reported in Jeff Madura, *Introduction to Business* (St. Paul, MN: Paradigm Publishing, 2010), 52.

KEY TAKEAWAYS

- Ethics are about doing the right thing. They are about standards that help us decide between right and wrong. They are not the same as our feelings, religion, the law, cultural norms, science, or values.
- Ethics are important because they provide structure and stabilization for society.
- Business ethics are about applying the virtues and discipline of ethics to business behavior. They set the standard for how your business is conducted and define the value system of how you operate in the marketplace and within your business.
- Companies that "outbehave" the competition ethically tend to outperform them financially.
- Ethical behavior in business improves the workplace climate and will ultimately improve the bottom line. The cost of unethical behavior can be staggering.
- Small-business owners have the opportunity to set the ethical tone for their companies. Modeling ethical behavior is key. The community and peers heavily influence small business ethics.
- Establishing an ethics policy is critical for creating an ethical work environment. The contents of the policy should be specific to the values, goals, and culture of each company. One size does not fit all.

EXERCISES

1. MaryAnn's marketing team just presented a "Less Sugar" ad campaign to the cereal brand manager for three of her brands. The packages shouted "75% LESS SUGAR" in large and colorful type so that it would catch the parent's eye and increase sales. With all the recent attention about childhood obesity, the company thought that parents would purchase the cereal to help their children attain and keep a healthy weight. A side-by-side comparison of the less-sugar and the high-sugar versions of the cereals, however, revealed that the carbohydrate content of the cereals was essentially the same. At best, the less-sugar version had only ten fewer calories per bowl. It offered no weight-loss advantage. The brand manager correctly concluded that the marketing campaign was unethical. J. Brooke Hamilton III, "Case Example 1: 'Less Sugar' Marketing," *Operationalizing Ethics in Business Settings*, 2009, accessed June 1, 2012, ethicsops.com/LessSugarMarketingCase.php. Was the campaign illegal? What should the cereal brand manager do?
2. An office supplies business with fifty employees has been doing well, but lately there have been suspicions by some of the employees. No names are known, but it is known that merchandise has been disappearing without explanation, and expensive gifts have been accepted from some vendors. The owner thinks it is time to create and implement a code of ethics. She has asked you for advice. You told her that it would be important to involve the employees in the development of the code, but you committed to do two things for her in preparation for that involvement: (1) search the Internet for a code of ethics that could be tailored to her needs and (2) prepare a preliminary list of topics that should be included in the code. She thanked you and asked that you submit your ideas within the week. She reminded you that her business is small, so a code of ethics for a large corporation would not be suitable.

This page titled [1.5: Ethics](#) is shared under a [CC BY-NC-SA](#) license and was authored, remixed, and/or curated by [Anonymous](#).

- [1.5: Ethics](#) by Anonymous is licensed [CC BY-NC-SA 3.0](#). Original source: <https://2012books.lardbucket.org/books/modern-management-of-small-businesses/>.