

philosophies held by members of the organization, its suppliers, its customers, and the community at large.

The relativist observes the actions of members of an involved group and attempts to determine that group's consensus on a given behavior. A positive consensus, for example, would signify that the group considers the action to be right or ethical. However, such judgments may not remain valid forever. As circumstances evolve or the makeup of the group changes, a formerly accepted behavior may come to be viewed as wrong or unethical, or vice versa. Within the accounting profession, for example, it was traditionally considered unethical to advertise. However, advertising has been gaining acceptance among accountants. This shift in ethical views may have come about as a result of the steady increase in the number of accountants, which has led to greater competition. Moreover, the federal government investigated the restrictions that accounting groups placed on their members and concluded that they inhibited free competition. Consequently, an informal consensus has emerged in the accounting industry that advertising is now acceptable. A problem with relativism is that it places too much emphasis on peoples' differences while ignoring their basic similarities. Similarities within different people and cultures—such as beliefs against incest, murder, and theft or promoting reciprocity and respect for the elderly—are hard to argue away and hard to explain from the relativist perspective.

In the case of the Midwest Hardware salesperson, if he were a relativist, he would attempt to determine the group consensus before deciding whether to tell his prospective customer about the bolts' defect rate. The relativist Sam Colt would look at both his own company's policy and at the general industry practice. He might also informally survey his colleagues and superiors as well as consulting industry trade journals and codes of ethics. Such investigations would help him determine the group consensus, which should reflect a variety of moral philosophies. If he learns that general company policy, as well as industry practice, is to discuss defect rates with those customers for whom faulty bolts may cause serious problems, he may infer that there is a consensus on the matter. As a relativist, he would probably then inform the bridge contractor that some of the bolts may fail, perhaps leading to a bridge collapse in the event of an earthquake. Conversely, if Sam determines that the normal practice in his company and the industry is to not inform customers about defect rates, he would probably not raise the subject with the bridge contractor.

Empirical research into the general concept of relativism suggests that it is negatively related to a person's ethical sensitivity to issues. Thus, if someone scores high on relativism, he or she will probably be less likely to detect or be sensitive to issues that are defined by others as having an ethical component.³⁰

Virtue Ethics

A moral virtue represents an acquired disposition that is valued as a part of an individual's character. As an individual develops socially, he or she may become disposed to behave in the same way (in terms of reasons, feelings, and desires) as what he considers to be moral.³¹ A person who has the character trait of honesty will be disposed to tell the truth because it is considered to be right and comfortable. This individual will always try to tell the truth because of its importance in human communication.

A virtue is considered praiseworthy because it is an achievement that an individual develops through practice and commitment.³²

This philosophy is called virtue ethics, and it posits that what is moral in a given situation is not only what conventional morality or moral rules (current societal definitions) require but also what the mature person with a "good" moral character would deem appropriate.

Proponents of virtue ethics frequently discuss lists of basic goods and virtues, which are generally presented as positive and useful mental habits or cultivated character traits. Aristotle named, among others, standards of loyalty, courage, wit, community, and judgment as the "excellences" that society requires. While listing the important virtues is a popular theoretical task, the philosopher DeVey cautions that virtues should not be looked at separately. The pluralism of virtues gives the businessperson a positive character and constitutes the very best idea of integrity of character. The virtue ethics approach to business can be summarized as follows:

1. Individual virtue and integrity count, but good corporate ethics programs encourage individual virtue and integrity.
2. By the employee's role in the community (organization), these virtues associated with appropriate conduct form a good person.
3. The ultimate purpose is to serve society's demands and the public good and to be rewarded in one's career.
4. The well-being of the community goes together with individual excellence because of the social consciousness and public spirit of every individual.³³

The difference between deontology, teleology, and virtue ethics is that the first two are applied *definitively* to problems whereas virtue ethics is applied *indefinitively*. Virtue ethics assumes that what current societal moral rules require may indeed be the moral minimum for the beginning of virtue. The viability of our political, social, and economic systems depends on the presence of certain virtues among the citizenry that are vital for the proper functioning of a market economy.³⁴

Indeed, virtue theory could be thought of as a dynamic theory of how to conduct business activities. The virtue ethicist believes that to have a successful market economy, society must be capable of carving out sanctuaries such as family, school, church, and community, where virtues can be nurtured. These virtues, including truth, trust, tolerance, and restraint, can play a role in the functioning of an individualistic, contractual economy and create obligations that make social cooperation possible. The operation of a market economy based on virtues provides a traditional existence where individuals in the economic system have powerful inducements to conform to prevailing standards of behavior. Some philosophers think that virtues may be weakened by the operation of the market, but virtue ethicists believe that institutions and society must maintain a balance and constantly add to their stock of virtues.³⁵ Some of the virtues that could drive a market economy are listed in Table 6-2; the list, although not comprehensive, provides examples of the types of virtues that support the business environment.

The elements of virtue that are important to business transactions have been defined as trust, self-control, empathy, fairness, and truthfulness. Attributes in contrast to virtue would include lying, cheating, fraud, and corruption. In their broadest sense, these concepts appear to be accepted within all cultures. The problem of virtue ethics

TABLE 6-2 Virtues That Support Business Transactions

Trust: The predisposition to place confidence in the behavior of others while taking the risk that the expected behavior will not be performed.

Self-control: The disposition to pass up an immediate advantage or gratification. It indicates the ability to avoid exploiting a known opportunity for self-interest.

Empathy: The ability to share the feelings or emotions of others.

Fairness: The disposition to deal equitably with the perceived injustices of others.

Truthfulness: The disposition to provide the facts or correct information as known to the individual.

Learning: The disposition to constantly acquire knowledge internal and external to the firm, whether of an industry, culture, or other socialities.

Gratitude: A sign of maturity that is the beginning of civility and decency.

Civility: The disposition or essence of courtesy, politeness, respect, and consideration for others.

Moral leadership: Strength of character, peace of mind, heart, and happiness in life.

Trust: The need for and associated cost of monitoring compliance with agreements, contracts, and reciprocal agreements. There is the expectation that a promise or agreement can be relied on.

The tradeoff is between short-term self-interest and long-term benefits.

Empathy promotes civility because success in the market depends on the courteous treatment of people who have the option of going to competitors. The ability to anticipate needs and satisfy customers and employees contributes to a firm's economic success.

Fairness often relates to doing the right thing with respect to small matters in order to cultivate a long-term business relationship.

Telling the truth involves avoiding deception and contributes to trust in business relationships.

Learning involves gaining knowledge to make better, more informed decisions.

Gratitude is the recognition that people do not succeed alone.

Civility relates to the process of doing business in a culturally correct way, thus decreasing communication errors and increasing trust.

Moral leadership is a trait of those leaders who follow a consistent pattern of behavior based on virtues.

SOURCE: Adapted from Ian Maitland, "Virtuous Markets: The Market as School of the Virtues," *Business Ethics Quarterly* (January 1997): 97; and Gordon B. Hinckley, *Standing for Something: 10 Neglected Virtues That Will Heal Our Hearts and Homes* (New York: Three Rivers Press, 2001).

comes in its implementation within and between cultures, as those who practice virtue ethics go beyond social norms. For example, if a company tacitly approves of corruption, the employees who adheres to the virtues of trust and truthfulness would consider it wrong to sell unneeded repair parts despite the organization's approval of such acts. Some employees might view this truthful employee as highly ethical but, in order to rationalize their own behavior, judge his or her ethics as going beyond what is required by their job or society. They might argue that virtue is an unattainable goal and thus one should not be obliged to live up to its standards. However, to those who espouse virtue ethics, this relativistic argument is meaningless because they believe in the universal reality of the elements of virtue.

If our salesman Sam Colt were a virtue ethicist, he would consider the elements of virtue and then tell the prospective customer about the defect rate and about his concerns regarding the building of the bridge. He would not resort to puffery to explain the product or its risks and, indeed, might suggest alternative products or companies that would lower the probability of the bridge collapsing.

Justice

Justice as it is applied in business ethics involves evaluations of fairness or the disposition to deal with perceived injustices of others. Justice is fair treatment and due regard in accordance with ethical or legal standards. In business, this means that the decision rules used by an individual to determine the justice of a situation could be based on the perceived rights of individuals and on the intentions of the people involved in a given business interaction. For that reason, justice is more likely to be based on deontological moral philosophies than on teleological or utilitarian philosophies. In other words, justice deals more with the issue of what individuals feel they are due based on their rights and performance in the workplace. For example, the U.S. Equal Employment Opportunity Commission exists to help employees who suspect they have been unjustly discriminated against in the workplace.

Three types of justice provide a framework for evaluating the fairness of different situations (Table 6-3). Distributive justice is based on the evaluation of the outcomes or results of the business relationship. If some employees feel that they are paid less than their coworkers for the same work, then they have concerns about distributive justice. Distributive justice is difficult to develop when one member of the business exchange intends to take advantage of the relationship. A boss who forces his employees to do more work so that he can take more time off would be seen as unjust because he is taking advantage of his position to redistribute the workers under him. Situations such as this cause an imbalance in distributive justice.

Procedural justice is based on the processes and activities that produce the outcome or results. Evaluations of performance that are not consistently developed and applied can lead to problems with procedural justice. For instance, employees' concerns about inequitable compensation would relate to their perception that the processes of fairness or justice in their company were inconsistent. A climate that emphasizes procedural justice is expected to positively influence employees' attitudes and behaviors toward work-group cohesion. The visibility of supervisors and the work group's perceptions of its own cohesiveness are products of a climate of procedural justice.³⁶ When there is strong employee support for decisions, decision makers, organizations, and outcomes, procedural justice is less important to the individual. In contrast, when employees' support for decisions, decision makers, organizations, or outcomes is not very

TABLE 6-3 Types of Justice

Justice Type	Evaluations of Fairness
Distributive Justice: Based on the evaluation of outcomes or results of the business relationship	Benefits derived Equity in rewards Decision-making process Level of access, openness, and participation
Procedural Justice: Based on the processes and activities that produce the outcome or results	Accuracy of information Truthfulness, respect, and courtesy in the communication process used in the business relationship

strong, then procedural justice becomes more important.³⁷ For example, Wainwright Bank and Trust Corporation in Boston has made a commitment to promoting justice to all stakeholders by providing a "sense of inclusion and diversity that extends from the boardroom to the mail room."³⁸ The bank, in other words, uses methods of procedural justice to establish positive stakeholder relationships by promoting understanding and inclusion in the decision-making process.

Interactional justice is based on evaluating the communication processes used in the business relationship. Because interactional justice is linked to fairness in communication, it often involves the individual's relationship with the business organization through the accuracy of the information the organization provides. Employees can also be guilty in interactional justice disputes. For example, many employees admit that they stay home when they are not really sick if they feel they can get away with it. Such workplace absenteeism costs businesses millions of dollars each year. Being untruthful about the reasons for missing work is an example of an interactional justice issue.

All three types of justice—distributive, procedural, and interactional—could be used to evaluate a single business situation and the fairness of the organization involved. In the example of Sam Colt, Sam's decision to implement a justice perspective would be identical to using a deontological moral philosophy. That is, he would feel obligated to tell all affected parties about the bolt defect rate and the possible consequences of it. In general, justice evaluations result in restitution seeking, relationship building, and evaluations of fairness in business relationships.

APPLYING MORAL PHILOSOPHY TO ETHICAL DECISION MAKING

Strong evidence shows that individuals use different moral philosophies depending on whether they are making a personal decision outside the work environment or making a work-related decision on the job.³⁹ Two possible reasons may explain this. First, in the business arena, some goals and pressures for success differ from the goals and pressures in a person's life outside of work. As a result, an employee might view a specific action as "good" in the business sector but "unacceptable" in the nonwork environment. The second reason people change moral philosophies could be the corporate culture where they work. When a child enters school, for example, he or she learns certain rules such as raising your hand to speak or asking permission to use the restroom. So it is with a new employee. Rules, personalities, and historical precedents exert pressure on the employee to conform to the new firm's culture. As this occurs, the individual's moral philosophy may change to be compatible with the work environment. The employee may alter some or all of the values within his or her moral philosophy as he or she shifts into the firm's different moral philosophy.

Obviously, the concept of a moral philosophy is inexact. For that reason, moral philosophies must be assessed on a continuum rather than as static entities. Simply put, when examining moral philosophies, we must remember that each philosophy states an ideal perspective and that most individuals seem to shift to other moral philosophies in their individual interpretation of and experiencing of ethical dilemmas. In other words, implementing moral philosophies from an individual perspective is not an exact

science. It requires individuals to apply their own accepted value systems to real-world situations. Individuals make judgments about what they believe to be right or wrong, but in their business lives they make decisions that may be based not only on perceived right or wrong but also on producing the greatest benefits with the least harm. Such decisions should respect fundamental moral rights as well as perspectives on fairness, justice, and the common good, but these issues become complicated in the real world.

The virtue approach to business ethics, as discussed earlier, assumes that there are certain ideals and values that everyone should strive for in order to achieve the maximum welfare and happiness of society.⁴⁰ Aspects of these ideals and values are expressed through individuals' specific moral philosophies. Every day in the workplace, employees must decide what is right or wrong and act accordingly. At the same time, as a member of a larger organization, an employee cannot simply enforce his or her own personal perspective, especially if he or she adheres narrowly to a single moral philosophy. Because individuals cannot control most of the decisions in their work environment, though they are always responsible for their own actions, they rarely have the power (especially in entry-level and middle-management positions) to impose their own personal moral perspective on others. In fact, the idea that a new employee has the freedom to make independent decisions on a variety of job responsibilities is not realistic.

Sometimes a company makes decisions that could be questionable according to individual customers' values and moral philosophies. For example, a brewery or a distributor of sexually explicit movies could be considered unethical to some stakeholders based on a personal perspective. A company's core values will determine how decisions that bring moral philosophies into conflict are made. Most businesses have developed a mission statement, a corporate culture, and a set of core values that express how they want to relate to their stakeholders, including customers, employees, the legal system, and society. It is usually impossible to please all stakeholders.

Problems arise when employees encounter ethical situations that they cannot resolve. Sometimes gaining a better understanding of the basic premise of their decision rationale can help them choose the "right" solution. For instance, to decide whether they should offer bribes to customers to secure a large contract, salespeople need to understand their own personal moral philosophies as well as their firm's core values. If complying with company policy or legal requirements is an important motivation to the individual, he or she is less likely to offer a bribe. On the other hand, if the salesperson's ultimate goal is a "successful" career and if offering a bribe seems likely to result in a promotion, then bribery might not be inconsistent with that person's moral philosophy of acceptable business behavior. Even though bribery is illegal under U.S. law, the employee may rationalize that bribery is necessary "because everyone else does it."

COGNITIVE MORAL DEVELOPMENT

Many people believe that individuals advance through stages of moral development as their knowledge and socialization continue over time. In this section, we examine a model that describes this cognitive moral development process—that is, the stages through which people may progress in their development of moral thought. Many models, developed to explain, predict, and control individuals' ethical behavior within

specific people. Duty, respect for authority, and maintaining the social order become the focal points. For example, some managers consider it a duty to society to protect privacy and therefore refrain from monitoring employee conversations.

5. *The stage of prior rights, social contracts, or utility.* In stage 5, an individual is concerned with upholding the basic rights, values, and legal contracts of society. Individuals in this stage feel a sense of obligation or commitment, a "social contract," to other groups and recognize that in some cases legal and moral points of view may conflict. To reduce such conflict, stage 5 individuals base their decisions on a rational calculation of overall utilities. The president of a firm may decide to establish an ethics program because it will provide a buffer against legal problems and the firm will be perceived as a responsible contributor to society.

6. *The stage of universal ethical principles.* A person in this stage believes that right is determined by universal ethical principles that everyone should follow. Stage 6 individuals believe that there are inalienable rights, which are universal in nature and consequence. These rights, laws, or social agreements are valid, not because of a particular society's laws or customs, but because they rest on the premise of universality. Justice and equality are examples of principles that are deemed universal in nature. A person in this stage may be more concerned with social ethical issues and thus not rely on the business organization for ethical direction. For example, a businessperson at this stage might argue for discontinuing a product that has caused death and injury because the inalienable right to life makes killing wrong, regardless of the reason. Therefore, company profits would not be a justification for the continued sale of the product.³²

Kohlberg's six stages can be reduced to three different levels of ethical concern. At the first level, a person is concerned with his or her own immediate interests and with external rewards and punishments. At the second level, an individual equates *right* with conformity to the expectations of good behavior of the larger society or some significant reference group. Finally, at the third, or "principled," level, an individual sees beyond the norms, laws, and authority of groups or individuals. Employees at this level make ethical decisions regardless of negative external pressures. However, research has shown that most workers' abilities to identify and resolve moral dilemmas do not reside at this third level and that their motives are often a mixture of selfishness, self-interest, and selfishness.

Kohlberg suggests that people continue to change their decision-making priorities after their formative years, and as a result of time, education, and experience, they may change their values and ethical behavior. In the context of business, an individual's moral development can be influenced by corporate culture, especially ethics training. Ethics training and education have been shown to improve managers' cognitive development scores.³³ Because of corporate reform, most employees in *Fortune* 1000 companies today receive some type of ethics training.

Some feel that experience in resolving moral conflicts accelerates an individual's progress in moral development. A manager who relies on a specific set of values or rules may eventually come across a situation in which the rules do not apply. For example, suppose Sarah is a manager whose policy is to fire any employee whose productivity declines for four consecutive months. Sarah has an employee, George, whose

business organizations, have proposed that cognitive moral processing is an element in ethical decision making. Cognitive moral processing is based on a body of literature in psychology that focuses on studying children and their cognitive development.³¹ Psychologist Lawrence Kohlberg adapted Piaget's theory and developed the six-stage model of cognitive development, which, although not specifically designed for business contexts, provides an interesting perspective on the question of moral philosophy in business. According to Kohlberg's model of cognitive moral development, people make different decisions in similar ethical situations because they are in different stages of six cognitive moral development stages:

1. *The stage of punishment and obedience.* An individual in Kohlberg's first stage defines *right* as literal obedience to rules and authority. A person in this stage will respond to rules and labels of "good" and "bad" in terms of the physical power of those who determine such rules. Right and wrong are not associated with any higher order or philosophy but rather with a person who has power. Stage 1 is usually associated with small children, but signs of stage 1 development are also evident in adult behavior. For example, some companies forbid their buyers to accept gifts from salespeople. A buyer in stage 1 might justify a refusal to accept gifts from salespeople by referring to the company's rule that defines accepting gifts as an unethical practice, or the buyer may accept the gift if he or she believes that there is no chance of being caught and punished.

2. *The stage of individual instrumental purpose and exchange.* An individual in stage 2 defines *right* as that which serves his or her own needs. In this stage, the individual no longer makes moral decisions solely on the basis of specific rules or authority figures; he or she now evaluates behavior on the basis of its fairness to him or her. For example, a sales representative in stage 2 doing business for the first time in a foreign country may be expected by custom to give customers "gifts." Although gift giving may be against company policy in the United States, the salesperson may decide that certain company rules designed for operating in the United States do not apply overseas. In the culture of some foreign countries, gifts may be considered part of a person's pay. So, in this instance, not giving a gift might put the salesperson at a disadvantage. Some refer to stage 2 as the stage of reciprocity because, from a practical standpoint, ethical decisions are based on an agreement that "you scratch my back and I'll scratch yours" instead of on principles of loyalty, gratitude, or justice.

3. *The stage of mutual interpersonal expectations, relationships, and conformity.* An individual in stage 3 emphasizes others rather than him- or herself. Although ethical motivation is still derived from obedience to rules, the individual considers the well-being of others. A production manager in this stage might obey upper management's order to speed up an assembly line if he or she believed that this would generate more profit for the company and thus save employee jobs. This manager not only considers his or her own well-being in deciding to follow the order but also tries to put him- or herself in upper management's and fellow employees' shoes. Thus, stage 3 differs from stage 2 in that fairness to others is one of the individual's ethical motives.

4. *The stage of social system and conscience maintenance.* An individual in stage 4 determines what is right by considering his or her duty to society, not just to other

productivity has suffered because of depression, but George's coworkers tell Sarah that George will recover and soon be a top performer again. Because of the circumstances and the perceived value of the employee, Sarah may bend the rule and keep George. Managers in the highest stages of the moral development process seem to be more democratic than autocratic, more likely to consider the ethical views of the other people involved in an ethical decision-making situation.

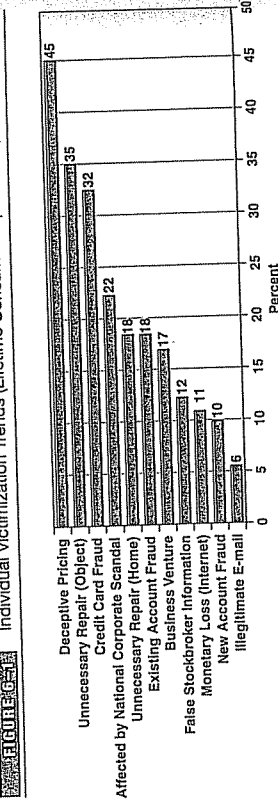
Once thought to be critical, the theory of cognitive moral development and the empirical research for the last ten years has been mixed, suggesting both a positive and negative relationship between it and ethical decision making. The consensus appears to be that cognitive moral development is difficult at best to measure and connect with ethical decision making.³⁴

WHITE-COLLAR CRIME

The terms *crime* and *criminal* normally conjures up thoughts of rape, arson, armed robbery, or murder. The news constantly reports on the damages that occur as a result of these types of crimes. But, although the devastation caused by these "crimes of the street" is more appealing to the evening news, it is no less destructive than the crimes perpetrated every year by seemingly nonviolent white-collar criminals. Referred to as white-collar crimes (WCCs), these "crimes of the suite" do more damage in monetary and emotional loss in one year than the crimes of the street over several years combined.³⁵

WCC creates victims by establishing trust and respectability. WCCs are often considered to be different than crimes of the street. It is interesting to note in Figure 6-1 that deceptive pricing, unnecessary repairs, and credit card fraud are the three victim categories that were found in the national public household survey of consumers reporting over their lifetime. The victims of WCC are often trusting consumers who

Individual Victimization Trends (Lifetime Consumer Experiences)



SOURCE: "The 2005 National Public Survey on White Collar Crime," National White Collar Crime Center, http://www.nw3c.org/research/national_public_survey.cfm (accessed March 9, 2006).

believe that businesses are legitimate. Unfortunately, senior citizens and other disadvantaged consumers fall prey to WCC perpetrators. In the White Collar Crime Center's survey nearly one in two households was victimized by WCC in 2005, and well over half of the individuals surveyed had been victimized by WCC over their lifetimes. WCC cost the United States more than \$300 billion annually.³⁶

From various proposed definitions of WCC, the following appears to be inclusive of the main criminology literature yet parsimonious and exacting enough to be understood:

An individual or group committing an illegal act in relation to his/her employment, who is highly educated (college), in a position of power, trust, respectability and responsibility, within a profit/nonprofit business or government organization and who abuses the trust and authority normally associated with the position for personal and/or organizational gains.

The presence of technology also seems to be giving a whole new generation of criminals the opportunity to score big. WCCs that previously originated at the top of organizations are now able to be committed at lower levels. Because of these advanced technology systems and corporate culture's increased reliance on them, anyone with the ability to hack into a system now can access the highly sensitive information necessary to commit WCC.

A classic example of WCC is the fraud perpetrated by Bernard Madoff, which was discovered in December 2008. Madoff's scam was based upon a Ponzi scheme, in which the operating principle is that you must constantly attract new investors to pay off old investors the "gains" they were promised. Most Ponzi schemes self-destruct fairly quickly as the ability to keep attracting new investors dwindles.

However, Madoff kept his scheme going for many years. The business that started with a small circle of friends and relatives was built on the promise of modest and steady returns in spite of market swings. With Madoff's social and business connections, and remarkably steady returns of 10 percent to 12 percent, investors were willing to spend billions of dollars. Part of the appeal was the aura that this investment opportunity was highly exclusive, although it later came out that thousands had given their money to Madoff.

When investors questioned Madoff about their investments, he refused to provide them online access to their accounts. Nonetheless, Madoff's well-dressed, multi-lingual sales representatives continued to convince European buyers to invest. With the large financial portfolio.

Many people indicate that one red flag would have been the fact that he would have overthrown the market had he traded the options in the volumes necessary to meet his financial goals. Madoff ultimately admitted to running a 4,800-client Ponzi scheme for more than a decade. While investors thought they had nearly \$65 billion invested with Madoff, his financial advisement firm never had anywhere near that much money. Incredibly, he had not invested a single penny. Instead, Madoff deposited the money in a bank account, which he then used to pay investors when they asked for their money back. The only way he sustained the operation for as long as he did was through attracting new clients. Madoff will spend the rest of his life in prison for his crime.³⁷

The focus of criminology is often the behavior of the individual and discovery of the reasons why people commit such crimes. Advocates of the organizational deviance perspective argue that a corporation is a living, breathing organism that can

collectively become deviant; that companies have a life of their own, separate and distinct from biological persons; that the ultimate "actors" in an organization are individuals; and that the corporate culture of the company transcends the individuals who occupy these positions. With time, patterns of activities become institutionalized within the organization that live on after those who established them have left the firm.

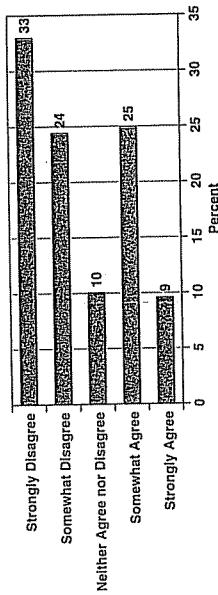
Another common cause of WCC is peer influence, the result of an individual's circle of acquaintances within an organization, with their accompanying views and behaviors. Employees, at least in part, self-select the people with whom they associate within an organization. For companies with a high number of ethical employees, there is a higher probability that a fence sitter (the 40 percent of businesspeople who could be persuaded to be ethical or unethical) will go along with their coworkers.

Finally, there is an argument to be made that some businesspeople may have personalities that are inherently criminal.³⁸ Personality tests have been used to predict behavior in individuals working within an organization, but such tests presuppose that values and philosophies are constant; thus, they seem to be ineffective as an approach to understanding the subtleties of white-collar criminals.³⁹ We also know that businesspeople and companies must make a profit on revenue to exist, slanting their orientation toward teleology and making them increasingly likely to commit white-collar crimes. The answer to the increase in WCC is not easy to pinpoint because many variables cause good people to make bad decisions.

As Figure 6-2 shows, the National White Collar Crime Center survey indicates that over half the respondents disagree that the government is devoting enough resources to combat WCC. The current focus of the Federal Sentencing Guidelines for Organizations is that all organizations should develop effective ethics and compliance programs to prevent WCC.

FIGURE 6-2

Does the Government Devote Enough Resources to Combat White-Collar Crime?



SOURCE: "The 2005 National Public Survey on White Collar Crime," National White Collar Crime Center, http://www.nwcc.org/research/national_public_survey.cfm (accessed March 9, 2006).

THE ROLE OF INDIVIDUAL FACTORS IN BUSINESS ETHICS

Of course, not everyone agrees on what the role of traditional moral philosophies in ethical decision making in an organization is. Some types such as Machiavellianism, which comes from the writing of Machiavelli, an Italian political theorist, have been found to influence ethical decisions. *The Prince* (a letter that Machiavelli wrote from exile to an Italian prince) argues against the relevance of morality in political affairs and holds that craft and deceit are justified in pursuing and maintaining political power. Machiavelli is famous for the idea that, for a leader, it is better to be feared than to be loved, and this type of thinking abounds within *The Prince* because Machiavelli presents basically a guidebook for obtaining and maintaining power without the need for morality. Most business managers do not embrace this extreme philosophy, and most managers can not communicate the exact moral philosophy that they use to make ethical decisions.

According to ethics consultant David Gebler, "Most unethical behavior is not done for personal gain, it's done to meet performance goals."⁴⁰ Unfortunately, many people believe that individual moral philosophies are the main driver of ethical behavior in business. This belief can be a stumbling block in assessing ethical risk and preventing misconduct in an organizational context. The moral values learned within the family and through religion and education are key factors that do influence decision making, but as indicated in the models in Chapter 5, it is only one major factor. The fact that many companies and business schools focus on personal character or moral development in their training programs as the main consideration reinforces the idea that employees can control the work environment. Although a personal moral compass is important, it is not sufficient to prevent ethical misconduct in an organizational context. The rewards for meeting performance goals and the corporate culture, especially for coworkers and managers, have been found to be the most important drivers of ethical decision making.⁴¹

Strong abilities in ethical reasoning will probably lead to more ethical business decisions in the future than trying to provide detached character education for each employee.⁴² Equipping employees with intellectual skills that will allow them to understand and resolve complex ethical dilemmas that they encounter in complex corporate cultures will help them make the right decisions. This approach will hopefully keep them from being carried along by peer pressure and lulled by unethical managers to engage in misconduct.⁴³ The West Point model for character development focuses on the fact that competence and character must be developed simultaneously. This model assumes that ethical reasoning has to be approached in the context of a specific profession. The military has been effective in teaching skills and developing principles and values that can be used in most situations that a soldier will encounter. In a similar manner, accountants, managers, or marketers need to develop ethical reasoning in the context of their jobs.

SUMMARY

Moral philosophy refers to the set of principles, or rules, that people use to decide what is right or wrong. These principles, rules, or philosophies present guidelines for resolving conflicts and for optimizing the mutual benefit of people living in groups.

Businesspeople are somewhat guided by moral philosophies as they formulate business strategies and resolve specific ethical issues.

Teleological, or consequentialist, philosophies stipulate that acts are morally right or acceptable if they produce some desired result, such as realization of self-interest or utility. Egoism defines right or acceptable behavior in terms of the consequences for the individual. In an ethical decision-making situation, the egoist will choose the alternative that contributes most to his or her own self-interest. Egoism can be further classified into hedonism and enlightened egoism. Utilitarianism is concerned with maximizing total utility, or providing the greatest benefit for the greatest number of people. In making ethical decisions, utilitarians often conduct a cost-benefit analysis, which considers the costs and benefits to all affected parties. Rule utilitarians determine behavior on the basis of rules designed to promote the greatest utility rather than by examining particular situations. Act utilitarians examine the action itself, rather than the rules governing the action, to determine whether it will result in the greatest utility.

Deontological, or nonconsequentialist, philosophies focus on the rights of individuals and on the intentions behind an individual's particular behavior rather than on its consequences. In general, deontologists regard the nature of moral principles as permanent and stable, and they believe that compliance with these principles defines ethicalness. Deontologists believe that individuals have certain absolute rights that must be respected. Rule deontologists believe that conformity to general moral principles determines ethicalness. Act deontologists hold that actions are the proper basis on which to judge morality or ethicalness and that rules serve only as guidelines.

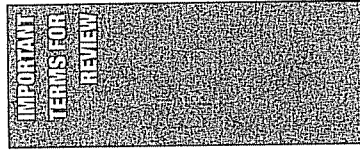
According to the relativist perspective, definitions of ethical behavior are derived subjectively from the experiences of individuals and groups. The relativist observes behavior within a relevant group and attempts to determine what consensus group members have reached on the issue in question.

Virtue ethics posits that what is moral in a given situation is not only what is required by conventional morality or current social definitions, however justified, but also what a person with a "good" moral character would deem appropriate. Those who profess virtue ethics do not believe that the end justifies the means in any situation.

Ideas of justice as applied in business relate to evaluations of fairness. Justice relates to the fair treatment and due reward in accordance with ethical or legal standards. Distributive justice is based on the evaluation of the outcome or results of a business relationship. Procedural justice is based on the processes and activities that produce the outcomes or results. Interactional justice is based on an evaluation of the communication process in business.

The concept of a moral philosophy is not exact; moral philosophies can only be assessed on a continuum. Individuals use different moral philosophies depending on whether they are making a personal or a workplace decision.

According to Kohlberg's model of cognitive moral development, individuals make different decisions in similar ethical situations because they are in different stages of moral development. In Kohlberg's model, people progress through six stages of moral development: (1) punishment and obedience; (2) individual instrumental purpose and exchange; (3) mutual interpersonal expectations, relationships, and conformity; (4) social system and conscience maintenance; (5) prior rights, social contract, or utility;



moral philosophy
economic value orientation
idealism
realism
monist
hedonism
quantitative hedonist
qualitative hedonist
pluralist
instrumentalist
goodness theory
obligation theory
teleology
consequentialism
egoism
enlightened egoism
utilitarianism
rule utilitarian

act utilitarian
deontology
nonconsequentialist
rule deontologist
act deontologist
relativist perspective
descriptive relativism
metaethical relativist
normative relativism
virtue ethics
justice
distributive justice
procedural justice
interactional justice
Kohlberg's model of cognitive moral development
white-collar crime

and (6) universal ethical principles. Kohlberg's six stages can be further reduced to three levels of ethical concern: immediate self-interest, social expectations, and general ethical principles. Cognitive moral development may not explain as much as was once believed.

White-collar crime can be defined as an individual committing an illegal act in relation to his or her employment, who is highly educated; in a position of power, trust, respectability and responsibility; and abuses the trust and authority normally associated with the position for personal and/or organizational gains. Some reasons why white-collar crime is not being heavily researched are that it doesn't come to mind when people think of crime, the offender (or organization) is in a position of trust and respectability, criminology or criminal justice systems look at white-collar crime differently, and many researchers have not moved past the definitional issues. The increase in technology use seems to be increasing the opportunity to commit white-collar crime with less risk.

Individual factors such as religion, moral intensity, and a person's professional affiliations can affect a person's values and decision-making process. Other factors such as ethical awareness, biases, conflict, personality type, and intelligence have been studied, but no definitive conclusions can be made at this time about their relationship to ethical behavior. One thing we do know is that moral philosophies, values, and business are more complex than merely giving people honesty tests or value profiles that are not business oriented. Paper-and-pencil techniques do not yield accurate profiles for companies.

RESOLVING ETHICAL BUSINESS CHALLENGES*

Twenty-eight-year-old Elaine Hunt, who is married and has one child, has been with United Banc Corporation (UBC) for several years. During that time, she has seen it grow from a relatively small-size to a medium-size company with domestic and international customers. Elaine's husband, Dennis, has been involved in the import-export business.

The situation that precipitated their current problem began six months ago. Elaine had just been promoted to senior financial manager, which put her in charge of ten branch-office loan managers, each of whom had five loan officers who reported to him or her. For the most part, the branch loan officers would go through the numbers of their loan people, as well as sign off on loans under \$500,000. However, recently this limit had been increased to \$500,000. For any loan over this amount and up to \$40 million, Elaine had to sign off. For larger loans, a vice president would have to be involved.

Recently, Graphco Inc. requested a \$10 million loan, which Elaine had been hesitant to approve. Graphco was a subsidiary of a tobacco firm embroiled in litigation concerning the promotion of its products to children. When reviewing the numbers, Elaine could not find any glaring problems, yet she had decided against the loan even when Graphco had offered to pay an additional interest point. Some at UBC applauded her moral stance while others did not, arguing that it was not a good financial business decision. The next prospective loan was for a Canadian company that was exporting cigars from Cuba. Elaine cited the U.S. policy against Cuba as the reason for not approving that loan. "The Helms-Burton Amendment gives us clear guidance as to what we shouldn't be doing with Cuba," she said to others in the company, even though the loan was to a Canadian firm. The third loan application she was unwilling to approve had come from Electrode International, which sought \$50 million. The numbers had been marginal, but the sticking point for Elaine was Electrode's unusually high profits during the last two years. During dinner with Dennis, she had learned

about a meeting in Zurich during which Electrode and others had allegedly fixed the prices on their products. Because only a handful of companies manufactured these particular products, the price increases were very successful. When Elaine suggested denying the loan on the basis of this information, she was overruled. At the same time, a company in Brazil was asking for an agricultural loan to harvest parts of the rain forest. The Brazilian company was willing to pay almost 2 points over the going rate for a \$40 million loan. Because of her stand on environmental issues, Elaine rejected this application as well. The company obtained the loan from one of UBC's competitors.

Recently, Elaine's husband's decision making had fallen short of his superior's expectations. First, there was the problem of an American firm wanting to export nicotine and caffeine patches to Southeast Asia. With new research showing both these drugs to be more problematic than previously thought, the manufacturing firm had decided to attempt a rapid penetration marketing strategy—that is, to price the products very low or at cost in order to gain market share and then over time slightly increase the margin. With 2 billion potential customers, a 1-cent markup could result in millions of dollars in profits. Dennis had rejected the deal, and the firm had gone to another company. One person in Dennis's division had said, "Do you realize that you had the perfect product—one that was low cost and both physically and psychologically addictive? You could have serviced that one account for years and would have had enough for early retirement. Are you nuts for turning it down?"

Soon afterward, an area financial bank manager wanted Elaine to sign off on a revolving loan for ABCO. ABCO's debt/equity ratio had increased significantly and did not conform to company regulations. However, Elaine was the one who had written the standards for UBC. Some in the company felt that Elaine was not quite up with the times. For example, several very good bank staff members had left in the past year because they found her regulations too provincial for the emerging global marketplace. As Elaine reviewed ABCO's credit report, she found

many danger signals; however, the loan was relatively large, \$30 million, and the company had been in a credit sales slump. As she questioned ABCO, Elaine learned that the loan was to develop a new business venture within the People's Republic of China, which rumor had it was also working with the Democratic People's Republic of Korea. The biotech venture was for fetal tissue research and harvesting. Recently, attention had focused on the economic benefits of such tissue in helping a host of ailments. Anticipated global market sales for such products were being estimated at \$10 billion for the next decade. ABCO was also willing to go almost 2 points above the standard interest equation for such a revolving loan. Elaine realized that if she signed off on this sale, it would signal an end to her standards. However, if she did not and ABCO went to another company for the loan and paid off the debt, she would have made a gross error, and everyone in the company would know it.

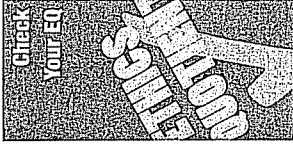
As Elaine was wrestling with this problem, Dennis's commissions began to slip, putting a crimp in their cash-flow projections. If things did not turn around quickly for him, they would lose their new

home, fall behind in other payments, and reduce the number of educational options for their child. Elaine had also had a frank discussion with senior management about her loan standards as well as her stand on tobacco, which had lost UBC precious income. The response was, "Elaine, we applaud your moral outrage about such products, but your morals are negatively impacting the bottom line. We can't have that all the time."

QUESTIONS • EXERCISES

1. Discuss the advantages and disadvantages of each decision that Elaine has made.
2. What are the ethical and legal considerations facing Elaine, Dennis, and UBC?
3. Discuss the moral philosophies that may be relevant to this situation.
4. Discuss the implications of each decision that Elaine could make.

*This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.



Check your EO, or Ethics Quotient, by completing the following. Assess your performance to evaluate your overall understanding of the chapter material.

1. Teleology defines right or acceptable behavior in terms of consequences for the individual. **Yes No**
2. A relativist looks at an ethical situation and considers the individuals and groups involved. **Yes No**
3. A utilitarian is most concerned with the bottom-line benefits. **Yes No**
4. Act deontology requires that a person use equity, fairness, and impartiality in making decisions and evaluating actions. **Yes No**
5. Virtues that support business transactions include trust, fairness, truthfulness, competitiveness, and focus. **Yes No**

ANSWERS: 1. No. That's egoism. 2. Yes. Relativists look at themselves and those around them to determine ethical standards. 3. Yes. Utilitarians look for the greatest good for the greatest number of people and use a cost-benefit approach. 4. Yes. The rules serve only as guidelines, and past experience weighs more heavily than the rules. 5. No. The characteristics include honesty, integrity, kindness, helpfulness, respect, and so on.