Indira Gandhi National Open University
School of Management Studies

MCO-024
Business Ethics and CSR

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CONTENTS

MCO-024 : BUSINESS ETHICS AND CSR

In recent years, Ethics and Corporate Social Responsibility (CSR) have emerged as buzzwords in business world. This coursework focuses on several important aspects such as Theories of Business Ethics, Business Strategy linkage with CSR, Legislation and Policy Guidelines in India, CSR Reporting process and Auditing etc.

Block 1 provides an overview of business ethics, clarifies their significance in today's changing world, and draws a line between ethics and law. It explores various ethical perspectives, including consequentialism (teleology) and non-consequentialism (deontology), as well as some current perspectives on ethical theories of business. Further, explains various approaches to overcome ethical dilemmas and understand the concept of Social Accounting and its linkages with Ethical Decision-Making.

Block 2 traces the evolution of Corporate Social Responsibility. Shareholder to stakeholder relationship has been explained in detail, which suggests that the prime goal of CSR is to create value for stakeholders. Then, it also focuses on integrating CSR into management practices, as integral part of business strategy. This block also explains the relationship between Sustainable Development Goals (SDGs) & CSR in a very elaborate manner as the SDGs and CSR initiatives in India are closely related to each other.

Block 3 discusses in detail all the aspects of Corporate Social Responsibility (CSR) in Indian context. It touches upon the topics such as phases of development, various models and trends of CSR in India. Then, the evolution of CSR Law under Companies Act 2013 has been explained in detail where all the salient aspects such as quantum of spending, committee constitution, audit etc have been covered. Further, the importance of CSR in public sector enterprises (PEs/PSUs) and the specific guidelines issued by government for them have been discussed in detail.

Block 4 covers the topics such as the implementation of CSR policies, its reporting and auditing process, roles & responsibilities of CSR department and sustainable development. Reporting and Auditing process of CSR focuses on aspects laid down under CSR Rules 2014 (The Companies Act 2013). Then, the formation and functioning of CSR department, the roles and responsibilities of board regarding CSR, tax issues of CSR etc. have been discussed.

BLOCK 1
ETHICS AND BUSINESS

BLOCK 1 ETHICS AND BUSINESS

This block explains the importance of ethics in business, different theories of ethics and different approaches of overcoming ethical dilemmas in businesses. Unit 1 gives an overview of business ethics and explains how these are important in globalized world; it also distinguishes ethics from law. Unit 2 discusses different ethical approaches such as consequentialism (teleology) and non-consequentialism (deontology) and some contemporary views on ethical theories of business. Unit 3 explains various approaches to confront and overcome ethical dilemmas and understand the concept of Social Accounting and its linkages with Ethical Decision-Making. Further, Unit-4 explains how ethical mandate of business is changing now a days.

Unit 1 elaborates on the topic that Ethics are not limited to everything mentioned in the form of legal codes and is made legally mandatory. Then it discusses the relevance of ethics in businesses in globalized world and further, relates the concept of sustainability to business ethics. Next, it explains the importance of business ethics education in the management curriculum and why managers should be thorough with the concept of ethics.

Unit 2 ponders on the concepts and theories of Business Ethics in detail. There are two schools of ethical theories: consequentialism (teleology) and non-consequentialism (deontology). Along with these two schools of theories several contemporary concepts related to business ethics have also been touched upon in this unit. Further, critical evaluation of the theories discussed above has been done.

Unit 3 explains several ways of overcoming Ethical Dilemmas in managerial decision making given by experts such as Ethical Navigation Wheel (given by Kvalnes & Ovarenget), Moral Compass (given by Lynn Paine), Ethical Check Points (given by Rushworth Kidder) and later ethical dilemmas have been connected to other related concepts like stakeholder management & social audit.

Unit 4 attempts to sensitize future managers about the need to look at ethical aspects of the business from an individual, business, and society (IBS) framework. To appreciate ethical decision-making, one needs to look at the various issues at the individual, organizational, and societal levels. Understanding the contours of the relationship between the three entities will give a holistic picture of ethics in business.

UNIT 1 BUSINESS ETHICS: AN OVERVIEW

Structure

1.0 OBJECTIVES

After reading this unit, you should be able to:

- Distinguishing ethics from Law
- Appreciate the Relevance of Business Ethics during today's age of Globalization and Sustainability
- Appreciate the Relevance of Business Ethics Education
- Understand the distinction between Shareholders' Approach and Stakeholders' Approach to Management

1.1 INTRODUCTION

What is business ethics? Does Business ethics education serve any purpose? Does Business Ethics education lead to any desirable outcomes? Before addressing such questions, let us try to understand what one means by ethics. Business ethics regards the application of ethical issues in managerial decision-making. Just like engineering ethics and medical ethics, the business management domain also considers ethics an essential part of managerial decision-making. Business ethics as an academic discipline guides us to find answers to specific questions about evaluating decisions as ethical or unethical, right, or wrong. Without a systemic study in the form of business ethics, decision-making is bound to be fraught with opinions and individual biases. To quote two eminent business scholars, Andrew Crane, and Dirk Matten, "business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.' It is pertinent to note that the distinction between right and wrong is based on moral criteria rather than one based on financial and strategic considerations.

1.2 THE DISTINCTION BETWEEN BUSINESS ETHICS AND LAW

One of the essential things while studying business ethics is to remember that it is distinct from Law. Ethics is not limited to everything mentioned in the form of legal codes and is made legally mandatory. It is impossible to lay down the dos and don'ts in the form of written Law. Therefore, it is not rare to see some landmark judgments in the courts of Law invoking the spirit of the Law to justify their decisions. The Law is, at best, a common minimum acceptable standard in any civilized society. However, some moral and ethical questions are not necessarily covered by the Law. For instance, no legal system makes it mandatory for grown-up children to be loyal and faithful to their parents in their old age.

Similarly, no law states that couples should be loyal to each other. Further, the Law covers many issues meant for regulatory purposes and ensuring civic order in any society. Such legal mandates need not necessarily have ethical implications.

A philosopher quipped once, 'where physics ends, metaphysics begins. 'Similarly, one can argue that business ethics begins where the Law ends. Many of the legal requirements today are by-products of society's moral and ethical values evolution. For instance, growing activism by environmental groups to encourage sustainable business practices and demand for recognizing women and LGBT rights in the workplace have led to new legislation. Though these issues have been identified by Law only recently, we need to bear in mind that these are pregnant with ethical implications. More than two centuries back, it was considered unethical to consider widow remarriage, discuss girl child rights, and allow women to participate in public affairs. The renaissance movement in India by people like Raja Rammohun Roy, Vidyasagar, and the contributions of people like Jyotirbai Phule paved the way for social reforms. Over time, their efforts have led to a drastic change in the condition of women in our society. Their efforts in social reforms have led to revisiting morality and ethics in a patriarchal society like ours. In traditional and modern societies, the sense of what constitutes ethics is conditioned by the prevailing power equations. In a caste-ridden society, the upper castes determine the criteria to judge ethical conduct.

Similarly, in a patriarchal society, the males decide what constitutes ethics and morality regarding a woman's conduct. Even in advanced industrial societies, corporates still deal with the grievances of women who have complained of the glass ceiling for their career growth. Therefore, it is relevant to keep in mind that the subject of ethics and morality are closely related to existing power structures. At a given time, a particular power structure also plays a critical role in providing legal forms to genuine ethical concerns.

Civil society organizations have repeatedly highlighted issues like climate change, LGBT rights, and women's rights in the workplace. From time to time, the media has raised these issues, causing an increasing public awareness. Growing public awareness about these issues leads to change in social perceptions about the right and wrong that prevails in a society. In the case of corporate organizations, increasing public awareness of issues like global warming has led to initiatives in the field of sustainability. As an acronym in some quarters, CSR is also understood as Corporate Sustainability and Responsibility. Growing media coverage of ozone layer depletion and environmental sustainability has also compelled the government to develop environmental protection laws. In short, after reaching an inevitable crescendo, today's ethical concerns are bound to attract government attention to introduce legal mechanisms.

1.3 RELEVANCE OF BUSINESS ETHICS

In today's world, corporate organizations are increasingly getting sandwiched between state regulatory agencies and increased vigilance on the part of civil society organizations and the media spotlight. Whereas democratic governments are accountable to the people and must face the electorate, political leaders are keen to address public demands. In the process, corporates are at the receiving end. Even in an authoritarian state like China, the government is susceptible to public criticism of corporate organizations. Every year the fifteenth of March is celebrated as consumer rights day, and at least one corporation is publicly reprimanded and shamed for violating consumer rights.

Moreover, corporates are increasingly sensitive to brand perception. Every time the media reports about corporate wrongdoing, corporate reputation is dented. With the onset of economic globalization in the 1990s, social media's tremendous spread and growth translated to reputations being made and marred in minutes or even seconds. Therefore, business ethics education is more critical to sensitize prospective managers about the ethical aspects of decision-making and emphasize stakeholder management. Business ethics scholarship has advanced some compelling reasons to underline the relevance of business ethics education.

First, corporate organizations, especially big ones like Google, Amazon, Facebook, Twitter, Tencent, and Alibaba, are becoming very influential. These corporate organizations are not only influential in their home state but also have a global appeal. Business ethics in the form of courses like Business, Government, and Society help us understand the implications of the overwhelming influence of large MNCs and other corporate organizations on society. For instance, the onset of the COVID epidemic and the consequent lockdowns led to the rise of online entertainment. Growing demand for online entertainment has caused easy access to adult content for children, and parental monitoring of the online activities of young children has become a nightmare.

Further, the explosion of online entertainment companies like Over The Top (OTT) media services have damaged intra-family interactions. Second, there was a time when business organizations had limited resources and skills to address social causes. Milton Friedman would say, 'the only business is to do business.' However, today's corporate organizations are endowed with a highly skilled workforce and more than adequate financial resources to seek solutions to social issues. We are in a world where the United Nations has invited businesses to participate in the Millennium sustainable development goals. In many cases, we are witnessing the emergence of public-private partnership (PPP) arrangements to address social causes. Further, some corporates consider social issues an opportunity to develop new products and services.

Stakeholder management has become challenging with the growing complexities in which industrial and post-industrial societies function. Growing public skepticism of the corporate world has ironically coincided with increasing demands to play a far more constructive role. Business ethics education helps sensitize managers about a firm's legal and social obligations in today's complex world with a highly dense network stemming from multiple sources. Meeting societal expectations is possible only when budding managers understand and appreciate the nuances of stakeholder management. Finally, business ethics education helps us to have a better sense of the numerous ways in which managerial decision-making impacts multiple stakeholders. Business ethics education equips the participants with better decision-making skills and provides skills beyond the workplace; business ethics education holds immense potential to enrich our personal and professional lives.

1.4 GLOBALIZATION AND BUSINESS ETHICS

The onset of liberalization, privatization, and globalization since the 1990s has altered the ethical landscape for businesses. Economic globalization has made national boundaries permeable. The growing overseas corporate engagement has translated to an increasing need for corporates to be more sensitive to cultural issues. For instance, to operate in Middle East markets, corporates must be extremely sensitive to local customs and culture while projecting women in their marketing strategies due to the prevailing gender biases in that society. If corporates are insensitive to cultural sensitivities in foreign markets, they are highly likely to face backlash, especially from the conservative elements of those societies. Second, with the saturation of western markets, western MNCs and other significant corporate houses have hardly any choice but to invest in emerging markets. These markets are characterized by blind spots and 'institutional voids' and have different legal frameworks. Lack of familiarity with the legal and political environment has also led to ethical breaches. Business ethics education enables budding managers to be sensitive about the legal and social obligations of the firm in unfamiliar ecosystems. Finally, increased permeability of the national boundaries and what some call the 'deterritorialization' of business organizations have translated to the growing influence of MNCs. The big corporate organizations are only accountable to a minority of shareholders. This lack of accountability has led to growing suspicions about corporate organizations and their democratic deficit. This democratic deficit translated in to a lack of accountability has meant the growth of anti-globalization protests and clamor for greater corporate responsibility.

1.5 SUSTAINABILITY AND BUSINESS ETHICS

The understanding of sustainability has been confined to environmental sustainability. Global warming, green house gas emissions, and their impact on ozone layer depletion have meant the regulation of businesses by the government. In the US, the Environmental Protection Agency's stringent emission norms led to the German automobile giant Volkswagen resorting to unethical practices and later recalling 11,000 cars from the market. However, sustainability has come to be understood by different corporate organizations. For British Petroleum, ' sustainability' means coming up with new products and services; for Shell, it is an integral part of its business principles. Today, automobile industry players, logistics, and many other industries must contend with demands to adopt sustainable business practices. In some instances, there is pressure on corporates to dissuade from engaging in those initiatives, which might lead to displacing the marginalized or eroding local cultures. Recently, sustainability is also being viewed from the prism of economic and social considerations.

1.6 BUSINESS ETHICS EDUCATION IN MANAGEMENT CURRICULUM

The place of BEE in management education has been a matter of intense debate. William Donham, the second Dean of Harvard Business School, opined those growing complexities in societies mean that managerial decision-making in general and ethical decision-making can no longer find answers from sources anchored in religious and legal texts. He was hinting those businesses had to contend with critical social problems in managerial decision-making. Business ethics was introduced in the Harvard Business School curricula in 1928, only to be dropped later in 1935. Later, Business Ethics was reintroduced in the year 1958 in the form of a course titled 'Business, Society and Individual.' In 1988, business ethics was introduced in the form of a study titled 'Decision-making and Ethical Values.'

The role and relevance of business ethics education have been a matter of intense debate in business ethics scholarship. Initial discussion regarding business ethics as a separate academic subject veered around its relevance as a subject of considerable importance. Once there was a grudging acceptance, there were debates on whether the matter should be a stand-alone one or could be added as a separate module to sensitize business school participants about the ethical aspects of business across various functional areas. However, the sudden rise in corporate scandals in the form of Enron and WorldCom in the early years of the twenty-first century first decade led to a growing feeling that management education has long undermined the role of ethical decision-making. The ever-increasing number of corporate wrongdoings led to accreditation agencies taking a stand that business ethics should be made a compulsory stand-alone course. Therefore, most business schools have made business ethics education an integral part of their curriculum.

In the early part of the twenty-first century, the Late Prof Sumantra Ghoshal, a renowned academic, made a scathing attack on management education in a hard-hitting article in the prestigious Academy of Management Learning and Education. According to Ghoshal, a considerable part of the blame for the corporate scandals should be attributed to the toxic education imparted to participants in scientific education. The so-called scientific models encourage participants to consider profit-making as business organizations be-all and end-all motives. Ghoshal argued that management theories like the game, agency, and transaction cost analysis had left management empty of human and social connections.

In his work' From Higher Aims to Hired Hands, ' Rakesh Khurana, a Harvard academic,' contends that a kind of market fundamentalism took hold in business education. The new logic of shareholder primacy absolved management of any responsibility for anything other than financial results.' George Akelr of and Robert Schiller, in their book 'Animal Spirits,' argue that corporate scandals are a direct offshoot of toxic teaching in B schools. Their main submission is that business cycles are connected to swings in personal commitments to ethical practices. Citing the example of executives, Akelr of and Schiller argue that during financial crises, they tend to rationalize unethical conduct in the workplace and justify it by saying 'everyone is getting away with it. 'Financial executives develop innovative financial instruments that neither make sense to the regulators nor fail to foresee the fallouts in advance. In his book 'How the Mighty Fall' Jim Collins argues that management executives tend to degenerate into unethical conduct through five stages. The five stages are mentioned in the paragraph below.

In the first stage, executives are afflicted with hubris, where they tend to view success as something they deserve rather than earn it through arduous work without cutting ethical corners. In the second stage, the executives tend to have a ruthless pursuit of more, making them myopic and losing track of organizational interests. Third, the executives tend to be in a state of risk denial. This denial leads to what some researchers term a mental condition called 'hedonistic adaptation,' where we tend to always ask for more wealth and power and be in an illusionary world where we derive happiness from our material well-being. Finally, such executives look for solutions and capitulate due to their fascination with the irrelevant. Jim Collins, like many others, concludes by submitting that the unethical conduct among managerial executives results from toxic teaching in business schools. This toxic teaching leads to a) exacerbating destructive social values, 2) undermining human values, and 3) giving overwhelming influence to profit maximization at the expense of all other objectives.

The new wave of criticism paved the way for new forms of responsible management .and learning. Responsible management and learning manifested in different forms. To begin with, it took the shape of 'teaching' by instructors. This endeavor was followed by Management schools coming up with initiatives like 'organizing responsible management education. Such initiatives at the level of the Management school take the shape of providing stand-alone courses on Ethics, Corporate Social Responsibility, and Sustainability. Yet another critical part of responsible management is the learner, who must commit to 'responsible individual learning.' Finally, the onus of responsible management and learning also lies with the business organizations committing themselves to build a specific ethical climate.

1.7 EFFECTIVENESS OF BUSINESS ETHICS INSTRUCTION

Business Ethics instruction in management education has been a contentious issue for a longtime. Ethics instruction in management schools has been met with skepticism. First, it is argued that college participants have already developed their ethical standards by the time they enroll themselves in a management school. Second, management education has been primarily influenced by the rationale of maximizing shareholder value, and ethics instruction runs counter to this objective. Third, growing corporate scandals reflect the failure of ethics instruction. However, business ethics instruction has become integral to management education despite cynicism. Accreditation agencies like Equis, the Association of Advanced Collegiate School of Business (AACSB), and the Association of MBAs (AMBA) are now insisting on the mandatory inclusion of business ethics instruction. Corporate scandals like the Enron Crisis in 2001 and later the role of credit rating agencies and investment banks in the unfolding of the 2008 subprime crisis have brought the spotlight back on business ethics education.

Two business ethic scholars, Robert A Giacalone and Donald T Wargo, in their work' roots of Global Financial Crisis, are in Our B-schools', contend that most of the financial executives involved in corporate scandals are products of B schools. They further argue that there is a high correlation between the recent unethical behavior of several MNCs and MBA degree holders in their ranks. Giacalone and Wargo diagnose the problem by pointing out that bad management theories and the cult of profit maximization have led to excessive corporate greed forcing managers to cut ethical corners. The Chicago school assumes that human beings are primarily motivated by economic interests. Further, the advancement of profit maximization as the sole objective of the corporation has inspired management theories that advocate self-interest and opportunistic behavior, causing managers to become opportunistic and selfish.

Activity 1

The participants can be asked to engage in a reflective exercise. The following can be some of the activities they can be engaged in:

1. What are your views on the current issues facing the world? The issues can range from the organizational climate in your workplace, the current issues of national relevance, and the ethical issues related to climate change, the Ukraine war, etc. Participants are encouraged to reflect on the ethical aspects of issues involved

1. Activity 1 and 2 are drawn from Ross Donald's published paper in the Journal of Business Ethics Education. McDonald, R. (2015). Leveraging change by learning to work with the wisdom in the room: educating for responsibility as a collaborative learning model. *Journal of business ethics*, *131*(3), 511-518.

2. Once they can identify a particular set of issues as right and wrong, they should be asked to produce an objective criterion for terming things as good/bad or better/worse.

3. Participants may be asked to produce five terms/phrases that capture the essence of what they mean by good/bad or better/worse

4. This activity can conclude with participants reflecting on the following: What are the ethics/values we need to collectively cultivate within us if this better world is to be made possible? In short, what are our responsibilities and roles in this world in our personal and professional capacities?

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Activity 2

1. Who are your heroes/idols within your organizational setting, national and international domains that you think are demonstrating the virtues you have highlighted in Activity 1, and who is violating them?

2. How does the corporate world convey/reinforce some values cited through marketing and advertisement?

3. Do corporate organizations subtly influence our choices of values and consumption patterns and therefore hypnotizes us to express ourselves autonomously in modern consumer culture?

The idea behind the above activity is to encourage and even compel participants to engage in the act of discovering their ethical personalities and examine whether their actions are in alignment with their ideals and ethical values. Engaging in such an exercise will have two-fold benefits a) Enables them to fundamentally ask questions about where, when, how, and why we act in contradiction to our values. b) When we engage in peer learning with such activities, we can appreciate how different people have different value systems, and there is no one-size-fits-all approach to ethical challenges in the workplace. A deep dive into such an exercise helps participants develop a sense of sympathy and empathy towards others. We will deal with ethical decision-making issues in a later unit. In the last twenty years, new research in behavioral psychology has pointed out that in some instances of ethical decision-making with a strong affiliation with the ethical issues involved, our ethical decision-making stems from our emotional impulses/affect/social intuition. On the other hand, in those contexts where our emotional affiliation to the ethical issues involved in a specific ethical dilemma is low, invariably, the concerned individual tends to be rational and calculative in decision-making.

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1.8 IS BUSINESS ETHICS AN OXYMORON?

The term 'business ethics' has always been viewed cynically. In business, many contend that maximizing profits and ethical decision-making are equivalent to a very antagonistic relationship. In short, cynics refer to business ethics as an oxymoron. Either one can engage in ethical decision-making or maximize profits. Perhaps therefore the inclusion of business ethics as an indispensable part of management education has always been a matter of contention until recent times. As mentioned in the preceding sections of this unit, the frequent occurrence of ethical breakdowns in the corporate world has led to a clamor for making business ethics education an integral part of management education.

The accreditation agencies like the AACSB (US-based Association of Advanced Collegiate School of Business), AMBA (UK-based Association of MBAs), and Equis have insisted on the inclusion of business ethics education in the management education curricula. Since then, business schools have more seriously taken business ethics education. While some schools have introduced business ethics education courses as stand-alone, others offer them as elective courses. Some schools introduced modules related to ethical practices in business in functional areas like marketing, accounting and finance, Organizational Business &Human Resources, and corporate strategy. Despite the growing consensus on the inclusion of ethics education in business school curricula, it still invokes animated debates and discussions. These discussions generally veer around the pedagogical tools employed, innovative ways to encourage participant-centered learning, and equipping would-be managers with the right skill sets to enable them to confront ethical dilemmas in the workplace. We will look at some of the ethical decision-making approaches in unit 4. However, before we discuss these issues in the latter sections, we need to ask ourselves the oft-repeated education, is business ethics education an oxymoron? This question brings us to the fundamental debate in business ethics education: shareholder versus stakeholder views.

The shareholders' view espoused by Nobel laureate and famous economist Milton Friedman and identified with the Chicago school believes that the fundamental 'business of business is to do business.' As per this school, the sole objective of business is to maximize shareholder value by maximizing profits. Milton Friedman argued that if the managers follow the Law of the land and the local community's social customs, their sole objective is to maximize profits and increase shareholder value. Friedman further contends that the manager's mandate is to maximize shareholder value. The two major arguments advanced in this regard are as follows. First, the manager should always seek to maximize shareholder value because he is responsible for investing shareholders' money to maximize profit. Under any circumstances, a manager should not try to engage in actions that promote the welfare of other stakeholders in the social responsibility of business. If the manager wants to engage in activities by invoking the firm's social responsibility, then a manager is desisting away from one's primary mandate. Suppose the manager is concerned about external stakeholders. In that case, one should not invest the shareholders' money in the name of doing good to others but start one's own business and prioritize investments per one's priorities. Second, since the manager is not trained to think like a public policy maker, a manager should only focus on the profit maximization of the firm and leave the task of addressing the needs of other stakeholders to the public policymakers.

The table below mentions some of the most common arguments in the shareholders versus stakeholders debate.

Figure 1.1 Social Responsibility of Business

For	Against
✓ Long-run self-interest ✓ Corporate Reputation ✓ Corporations need to fulfill their obligations as per their covenant with the society ✓ Lack of pro-active approach may lead to government regulations likely to make firms less competitive ✓ Adherence to local social and cultural practices ✓ Converting social problems as opportunities ✓ During contemporary times business has adequate resources to partner with government and NGOs to tackle social problems	✓ Profit Maximization should be the sole purpose of a firm ✓ Digressing from its core functions may lead to dilution of its primary role as an economic agent seeking to optimize its activities for larger social interest ✓ Managers lack skills to address social issues ✓ Corporations are likely to play Robin Hood invoking concerns of social justice ✓ Corporations' social involvement would increase its power and hurdle the prospects of pluralistic division of powers in society

1.9 WHAT IS A BUSINESS FOR? THE TWO DOMINANT VIEWS

The shareholder theory of management is ardently advocated by the Chicago School of Economics, which assumes that human beings are *homo economicus*, economic agents, and seek maximization of their economic welfare. Milton Friedman is the most prominent advocate of maximizing the shareholders' value. He argued that 'few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. On the other hand, another distinguished economist, Paul Samuelson, argued in favor of stakeholder management. He contended,' A large corporation these days not only may engage in social responsibility, but it had also damn well better try to do so.'

However, it was Edward Freeman, in his celebrated work, 'Strategic Management: A Stakeholder Approach' who made a very scholarly contribution to the field of stakeholder management and came up with four fundamental propositions in this regard:

1. *Separation Fallacy*: Business and Ethics can be managed separately
2. *The Integration Thesis*:
   a) Most business decisions have an ethical content or an implicit ethical view
   b) Conversely, most ethical decisions have some business content or implicit view of business
3. *Open Question Argument* a) If this decision is made:
   - ✓ For whom is value created, and for whom is it destroyed?
   - ✓ Who is harmed and/or benefited by this decision?
   - ✓ Whose rights are enabled/whose values are realized by this decision?
   - ✓ What kind of person will I become if I take this decision?
4. *The Responsibility Principle*

Most people, most of the time, want to, do, and should accept responsibility for the effects of actions on others

Edward Freeman's stakeholders' approach has gained significant importance over time in business ethics literature. In recent times corporate governance failures have led to calls for businesses to be more responsible in their ethical conduct. It is a fact that a corporation is a legal person. The question is, does the idea of corporate personhood entail the belief that a corporation should be an ethical person as well?

In the context of the above arguments put forward by the shareholders and stakeholders, examine the merits and demerits of their statement by clicking the following YouTube links comprising of clippings from the Hollywood movie 'Other People's Money:

For shareholders' view: https://www.youtube.com/watch?v=62kxPyNZF3Q

For stakeholders' view: https://www.youtube.com/watch?v=xJRhrow3Jws

After watching the videos, you can discuss the following case to address the question: What's the purpose of a corporation? Is it merely to earn profits, or does it have any social responsibility? Assuming it does, what kind and form should such responsibility take? The case brings out the philosophical differences between the two schools of management: stakeholder and shareholder management.

The online gaming industry is one of the fastest-growing industries today. The popularity of these games stretches across gender, religion, and national boundaries. These games also have a strong appeal to consumers who are on the other side of the forties. The outbreak of the Covid pandemic forced many to look for online entertainment. Whereas the challenge for the MNCs was to go for the kill and develop more entertaining games, the challenge for consumers was to dissuade themselves from being addicted to these games. Some online gaming companies have evolved from merely coming up with entertaining online games for entertainment to highly innovative games. The idea now was not simply to be service providers but how to keep the consumers hooked and even addicted to online games.

There were numerous ways in which online gaming companies sought to outcompete their rivals to garner maximum market share. Some companies developed massively multiplayer (MMP) role-playing games (RPG). These MMP RPGs are video games where players connect with hundreds of thousands of other gamers each other virtually through the internet. In many cases, these games are about role-playing. Players are expected to create live characters free to roam in the fantasy world. The players are accessible in the virtual world to make their allies and new friends. The players have the freedom to determine the character's fate, with each character gaining strength as an individual player plays for more hours. The live characters mean that when the players log off, their online allies and guilds will likely be defeated by other allies and guilds. Therefore, there is tremendous pressure on the players to be glued to their screens and not log off. One game for Sony Online was tagged 'plays game, pause life.' Further, logging off meant that the live characters in the virtual world were likely to be subjected to attacks by other players when a specific player was offline.

Online gaming companies have developed further innovations in how the games are designed. These companies have also marketed their offerings in numerous ways. Free online coaches to help gamers sharpen their skills, investing in new servers dedicated to specific games and options to enable migration of the virtual characters to a different world with an extra fee. These marketing efforts have led to a growing addiction to online games among the youth. Numerous mental health studies have inferred that these online games, like other toxic substances, give temporary pleasure by activating dopamine. Addiction to online games is increasingly becoming a public health issue. However, some psychologists argue that the blame for addiction to online gaming lies on the consumer.

Based on the above case, reflect on the following:

a) Do online gaming companies have any social responsibility not to produce these games which are highly addictive?

b) Is it fair to argue that it is not the online game developers that are to be blamed but weak individuals who seek temporary psychological refuge in online games and get addicted?

c) Do you justify the mad pursuit of profits by online gaming companies at the expense of many youths who tend to degenerate into deplorable mental conditions and, in extreme cases, even commit suicide?

d) What arguments can one raise to support or oppose the opinion that specific industries like tobacco, alcohol, food& beverages (F&B), and online gaming companies must be socially more responsible than others?

In the context of the above case, discuss the following questions:

a) Identify the chief protagonists in the case

b) Identify the ethical issues involved in the case

c) Apply the various concepts related to shareholders versus stakeholders' management in the context of the case

1.10 SUMMARY

Business ethics instruction has witnessed numerous debates between scholars of management education. Business ethics can be defined as an academic discipline that enables business school participants and business executives to find answers to specific questions concerning decisions as ethical or unethical. It is essential to understand that there is a fundamental distinction between laws and ethics. Whereas laws are codified, ethical concepts and frameworks are not delineated in a designated book or statute. Further, ethics is also contextual. The need for business ethics education and its relevance in management education has been an intense debate. Growing insistence on the part of prestigious accreditation agencies has led to increasing relevance of business ethics instruction in management curricula. Globalization and the growing footprint of the corporation have introduced new dimensions to ethical decision-making. Recent developments in the last three decades, like economic globalization, environmental sustainability, increasing role of technology, have infused new life into the *shareholder versus stakeholder* debate. These debates have compelled us to revisit the fundamental question: What area corporation and its purpose? It is naïve to dismiss business ethics education as an oxymoron. By introducing us to ethical dimensions of managerial decision-making, business ethics education exposes business school participants to various ethical approaches and frameworks in managerial decision-making.

1.11 KEY WORDS

Business Ethics: Business ethics is the prescribed code of conduct for businesses. It is a set of guidelines for dealing with various procedures ethically.

Law: Law is a rule of conduct developed by the government or society over a certain territory.

Stakeholder Management: Stakeholder management is the process by which you organize, monitor and improve your relationships with your stakeholders.

Globalization: It is the word used to describe the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information.

Sustainability: Sustainability means meeting our own needs without compromising the ability of future generations to meet their own needs

Responsible Management Learning: It is concerned with how change initiatives in organizations and groups of managers within organizations, may learn and change in socially and environmentally responsible ways.

1.12 SELF-ASSESSMENT QUESTIONS

Which of the following statements would be true?

1. The legal and ethical obligations of the firm are the same. Justify.
2. Corporations have no other purpose but to earn profits at any cost. Justify
3. Business ethics is an oxymoron. Justify.
4. Globalization and sustainability have introduced new complexities to managerial decision-making. Justify.
5. In today's world, corporations are compelled to reexamine the shareholder versus stakeholder approaches to management. Justify.

1.13 REFERENCES/FURTHER READINGS

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UNIT 2 CONCEPTS AND THEORIES OF BUSINESS ETHICS

Structure

2.0 OBJECTIVES

After reading this unit, you should be able to:

- Understand the relevance of basic ethical frameworks in dealing with dilemmas in the workplace
- Appreciate the basic ethical approaches in ethical decision-making (EDM)
- Develop a critical overview of the traditional ethical approaches
- Develop awareness of some of the consequentialist, duty-oriented, and contemporary views on ethical theories of business

2.1 INTRODUCTION

In our daily lives, we come across various ethical dilemmas. These ethical dilemmas that we confront in our personal lives tend to become more complex in managerial decision-making in the business world. In our personal lives, we enjoy more autonomy since our decision-making affects a limited number of people. In the world of business, managerial decision-making involves many stakeholders. The manager must identify not only stakeholders but also prioritize their importance.

Furthermore, a manager must engage in stakeholder management without compromising shareholder value maximization. In our personal and profession lives, we are fundamentally faced with three kinds of dilemmas

a) Right versus Wrong Dilemmas, which are perhaps the easiest ones to resolve b) Wrong versus Wrong Dilemmas, which challenge us to choose a path that is likely to give us lesser pain and c) Right versus Right Dilemmas which prompts us to choose a path that gives us more pleasure. However, there are fundamental issues that we need to consider. First, how do we decide what is right and what is wrong? Second, how do we decide which choices are exercised to give us less pain or pleasure? Third, a certain sense of right and wrong depends on 'moral relativism.' For instance, exchanging gifts in a managerial capacity in the USA is strictly prohibited and comes under the law's ambit. The Foreign Corrupt Practices Act (FCPA) deals with corrupt activities like exchanging gifts in international business. However, in a country like China, exchanging gifts is an accepted way of doing business and developing networks and relationships. (Called *guanxi* in Mandarin). In fact, in China, developing your networks and relationships in business is impossible without engaging in gift exchanges.

The above examples regarding gift exchanges highlight the utility of theory in business ethics education in the context of moral relativism. Instances like this have prompted many to question the efficacy of business ethics education and the relevance of normative ethical theories in business ethics education. Responding to these challenges, some scholars have suggested two extreme positions: ethical absolutism and ethical relativism. On the one hand, there are a particular set of ethical norms that are eternal and universally applicable. Such ethical principles have also been referred to as 'hyper norms, ' defined as 'norms sufficiently fundamental to evaluate lower-level moral norms. 'According to ethical absolutism, right and wrong are objective qualities that can be rationally determined. The other end of the spectrum comprises ethical relativism. Relativists contend that there are no universal rights and wrongs. The above example regarding the exchange of gifts in international business is appropriate.

Most of the normative theories bear salience to one form of ethical absolutism. Existing theories like Utilitarianism, teleology, and deontology are examples of ethical absolutism. These theories provide general guidance but do not provide any readymade answers to ethical dilemmas managers confront in the business world. For instance, ethics of deception during business negotiations, exchanging gifts in a professional capacity, and questions related to the ethical implications of romance in the workplace constitute grey areas of ethical decision-making. To Donaldson and Dunfee, two eminent business ethics scholars, normative theories fail to provide reliable anchors and foolproof solutions to ethical dilemmas.

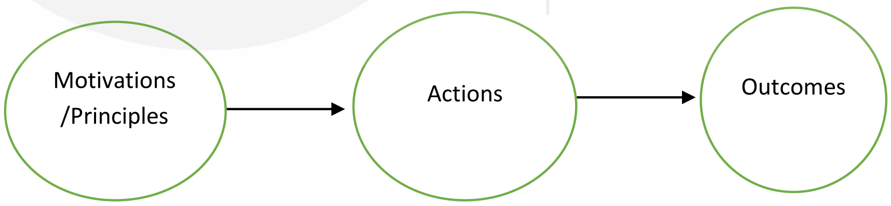
On the other hand, ethical relativism provides flexibility to ethical decision-making. Still, it gives ample scope to the concerned subjects to justify unethical conduct in the name of ethical relativism, leading us to examine the middle path between ethical absolutism and ethical relativism. A section of business ethics scholarship has termed this middle path as pluralism. Pluralism seeks to arrive at some minimal consensus on fundamental principles and rules in a particular social context, despite differing moral convictions and backgrounds. To engage in nuanced ethical decision-making and apply pluralism, one needs to have some basic grounding in normative ethical theories.

2.2 TRADITIONAL ETHICAL THEORIES

There are two schools of ethical theories: consequentialism (teleology) and non-consequentialism (deontology).Teleological theories derive their name from the fact that these theories are based on the consequences of the moral judgment we make and the actions we perform in resolving ethical dilemmas. The word 'teleology' is derived from 'teleos,' meaning consequences or purpose (of our judgement/action), and 'logus,' meaning study. On the other hand, deontological theories advocate for moral judgement/actions based on a sense of duty and responsibility. 'Deontology' comprises two words: 'deont,' meaning duty/responsibility, and 'logus', meaning study. To illustrate the difference between the two theories, one can cite the following example.

Let's say that we are taking an examination in an examination hall. Invigilators oversee the whole process by keeping strict vigil. Imagine that the invigilator steps out of the examination hall for a minute or two, providing a window of opportunity to cheat. It is fair to say that there is a universal consensus that cheating is an unfair practice. However, assuming one is tempted to cheat, what can be the moral reasoning to arrive at a moral judgment? Consider a student's reasoning that they should not be cheating because they can be dismissed from the program, debarred from the placement process, or even rusticated. One can reason that this kind of ethical or moral reasoning is teleological. The student doesn't cheat due to the likely consequences rather than the conviction that cheating is unethical. Suppose the same student reasons that irrespective of the results, they will not cheat because they must be ethical in not cheating and securing better grades. One can say that their moral reasoning is non-consequential or deontological.

The following figure is a diagrammatic representation of the consequentialist and non-consequentialist theories in business ethics:



Source: Crane, A., Matten, D., Glozer, S., & Spence, L. (2019). *Business ethics: Managing corporate citizenship and sustainability in the age of globalization*. Oxford University Press, USA, p90

As depicted in the above diagram, the theories based on outcomes/purposes/ consequences are consequentialist ethics. As explained earlier, moral judgement is based on intended outcomes in consequentialist approaches. In contrast, in the case of non-consequentialist theories, moral judgement is based on rights and duties and not on intended outcomes. In other words, the means take priority over the ends/consequences.

In the following section, we discuss salient features of deontological and teleological ethical systems. These discussions will be followed by brief explanations of the significant ethical approaches belonging to the two major ethical systems.

Activity 1

Write a short note about traditional ethical theories.

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2.3 TELEOLOGICAL ETHICAL SYSTEMS/ CONSEQUENTIALIST ETHICAL THEORIES

According to teleological ethics, ethical decision-making is determined by measuring the probable consequences or outcomes. The most cited teleological ethical system is Utilitarianism. Jeremy Bentham, an English legal scholar, and philosopher originally advocated the utilitarian school of thought. According to Bentham, human actions are determined by the consequences of an action and are based on the pleasure-pain principle. The same principle in economics and management has been interpreted as cost-benefit analysis. Some other ethical theories associated with teleological ethical systems are egoism and distributive justice theory put forward by John Rawls, one of the most influential political thinkers of the twentieth century. Let us briefly examine some of the significant ideas of the teleological moral system.

Egoism

The idea of egoism dates to Greek times and is attributed to some great Greek philosophers like Plato. In the more recent times following the renaissance and reformation in Europe, people like Adam Smith were deeply influenced by egoism. According to egoism, the decision maker's short-term and long-term interests determine the moral rightness of an action. Adam Smith reasoned that there should be no moral qualms with the pursuit of self-interest by individuals. Smith argued that the goal of individual self-interest produces morally desirable outcomes for society through the 'invisible hand of the marketplace. For instance. Let us take the case of a good or service provider producer. It is in the self-interest of the manufacturer or service producer to deliver the best possible quality of goods and services because satisfied customers are going to repeat the orders due to the satisfaction, they derive from quality products and services. In such a case, better quality products and services not only work in favour of the customers but are directly associated with the self-interest of the producer or service provider. In other words, proponents of ethical egoism contend that those actions which lead to the 'greatest good of the greatest number' are morally desirable.

Though based on enlightened self-interest, ethical egoism has been subject to criticism. The most compelling criticism of egoism is that it is impossible to determine objective parameters to draw distinctions between enlightened self-interest and the desire to pursue selfish objectives. Second, some scholars argue that ethical egoism is not necessarily a teleological theory but a hybrid theory. Why hybrid? It is argued that though the ultimate purpose of ethical egoism is the 'greatest good of the greatest number,' an individual pursues ethical egoism to fulfil the larger good; therefore, it is considered a hybrid theory.

Utilitarianism

The utilitarian school was founded by two famous British philosophers, Jeremy Bentham, and John Stuart Mill. Bentham contended that the 'pleasure-pain' principal conditions human beings' actions. In other words, human beings tend to follow those actions that give them more pleasure and avoid those that cause pain. Whereas Bentham focussed on the 'pleasure-pain' principle in quantitative terms, John Stuart Mill argued that it is not the quantity of pleasure that we derive from specific desirable actions to maximize pleasure and minimize pain but the quality of pleasure that matters. Mill asserted that 'an Aristotle dissatisfied is better than a pig satisfied. 'In other words, Bentham and Mill associated ethical decision-making with the quantity and quality of pleasure stemming from a specific action.

Utilitarianism has been a persuasive philosophy in managerial decision-making since it puts the 'utility' of a decision in terms of cost-benefit analysis as the moral centre. Despite concerns expressed regarding the quantification of pleasure and pain in philosophical inquiries, the emergence of quantitative tools in the form of statistical modelling and advanced methodological approaches have equipped managers to engage in robust cost-benefit analysis and enable them in managerial decision-making. Furthermore, since the utilitarian theory advocates the maximization of pleasure at a societal level, it translates to the objective of achieving the 'greatest good of the greatest number.' Through cost-benefit analysis, managers can also engage in healthy stakeholder management by measuring the cost-benefit analysis of their decision-making on the various stakeholders and resolving their ethical dilemmas.

Despite its merits, Utilitarianism has been the subject of criticism. First, advocates of Utilitarianism have found it defines difficult owing to the element of subjectivity. Since every individual is encouraged to maximize pleasure, justifying the pleasure-maximizing tendencies of anti-social elements is untenable. Second, irrespective of the emergence of advanced methodological approaches and quantitative techniques, it is impossible to quantify the quality and quantity of pleasure. Third, the philosophy of 'greatest good of the greatest number' can sometimes be interpreted as the tyranny of the majority. Utilitarian thinking can be invoked to justify the compromises on the interests of the minorities to advance the cause of the majority.

Distributive Justice

One of the giants among philosophers of the twentieth century, John Rawls, advocated that the criteria for ethical decision-making should be distributive justice. Rawls identified the idea of justice with 'fairness' and contended that ethical actors or decisions are those that lead to an equitable distribution of goods and services. Rawls made a persuasive argument in his celebrated work, 'Justice as Fairness,' through the concept of the 'veil of ignorance. 'According to 'the veil of ignorance,' Rawls calls upon individuals in society to imagine that they are oblivious of their socioeconomic status. Further, they are supposed to assume that they belong to the worst-off sections in such an imaginary society.

Additionally, being the worst-off social sections, Rawls asks what socioeconomic order they prefer. Rawls argues that in such circumstances, individuals would like to consider those actions and decisions fair, favouring the least advantaged sections of society. To substantiate his thoughts further, Rawls produced the idea of the 'difference principle, which he used to advocate that it is fair to treat unequal unequally. His arguments have been justified to defend affirmative action in favour of weaker sections of society. In the corporate world, Rawls 'difference principle is invoked to initiate policies addressing the cause of women's workforce by enabling them to overcome the existing biases that inhibit their inclusion. For instance, arrangements like providing crèches facilitating childcare for working mothers and paid maternity leaves are discussed very seriously. Some corporate organizations have gone ahead to implement these policies.

2.4 DEONTOLOGICAL ETHICAL SYSTEMS

As mentioned earlier, the deontological ethical system is based on rules/ regulations that determine decision-making. The German philosopher Immanuel Kant advanced the most persuasive arguments in favour of the deontological ethical approach. Kant believed that the moral concept of goodwill determines the rightness of an act rather than its consequences. Apart from Kantian ethics, other sources of deontological systems are religion and some Asian philosophical traditions like Confucianism. Some philosophers have argued that Aristotle's virtue ethics theory can also be considered part of deontological ethical systems.

Kantian Idea of the Categorical Imperative

As mentioned above, Kant had a belief in the concept of goodwill. But how does a person bestowed with goodwill develop a sense of right and wrong? Anticipating such a question, Kant produced the idea of the '*categorical imperative*.' The idea of '*categorical imperative*' meant that one should propagate only those principles and take recourse to only those actions and thought processes that they, as a rational agent, would prescribe as universal rules and laws. In other words, the idea of '*categorical imperative*' connotes the principle 'do unto others as you would like others to do unto you.'

It is worth emphasizing that Kant's imperative is not conditional but categorical. The prefix 'categorical' means any moral act or judgement should be adopted as an end, irrespective of its consequences. Kantian *categorical imperative* meant that any rational agent could exercise 'autonomous, self-legislating wills that can potentially become universal prescriptions for ethical conduct. On this basis, Kant argued that every individual has the inherent capacity to discover the 'right' thing to do. Therefore, the right actions emanating from rational individuals promise to qualify as universal laws.

Kantian morality recognized specific universal rules (also called *hyper norms*) across time and space, like the right to privacy and freedom of speech and expression. However, when an individual faces a conflict between two categorical imperatives or a right versus right dilemma, what is the right thing to do? Which rule should be given priority? Kantian morality does not provide a clear-cut answer to such a moral conflict. Another source of deontological ethics is religion. All religions worldwide propagate that the means are always more important than the ends.

In the last few years, business ethics scholars have revived another school of thought as part of deontological ethics. This school traces its intellectual inspiration to Aristotle's virtue ethics which attaches utmost importance to individual character. Aristotle wrote about virtue ethics in one of his famous works *Nichomachean Ethics*. Aristotle argues that ethical decision-making is more about habitual exercise. Along with other Greek philosophers like Plato, Aristotle contended that an individual should pay heed to the question,' What is the best sort of life for human beings to live?' rather than engaging in thought and conduct, which are determined by consequences. Aristotle argues that an individual should habitually engage in character building regularly to make oneself ethically sound in ethical decision making. Aristotle's virtue ethics can be likened to the importance of bringing rigor to the art of any artist or athlete by regular practice. Just like elite athletes and athletes hone their skills by minimizing the scope for errors to enhance their muscle memory, people should consider character-building a part of their regular lives. Practicing ethical conduct regularly might develop ethical memory (akin to the muscle memory of sportspersons or an artist), enabling one to perform the right action without fear of consequences unhesitatingly.

2.5 CONTEMPORARY APPROACHES

The contemporary approaches to business ethics are new. Though these theories are not commonly referred to in business ethics, these theories offer exciting perspectives in the context of ethical decision-making from a managerial perspective. Some leading contemporary approaches are a) Feminist Ethics, b) Discourse Ethics, and c) Postmodern Ethics. The following sections briefly describe these current approaches.

Feminist Ethics

Feminist ethics assumes that people have different orientations regarding approaching and organizing social life. Feminist ethics theorists contend that most of the existing ethical theories are based on the ethical orientations of men. For instance, the theory of 'rights 'legitimizes the individual's right over that of the community. Feminist ethics highlights that women are more caring than men, and their ethical orientations are primarily determined by 'ethics of care. 'Feminist ethics perceive organized life as individuals deeply enmeshed in interpersonal relationships. Compared to other ethical approaches, feminist ethics emphasizes empathy, caring for one another, and avoiding causing harm to others. In short, this theory speaks of a) ethics of care, b) advocates recognition of the unique and moral voice of women, and c) stresses human relationships and emotion-based virtues

In the context of business ethics, the feminist theory argues that organizational functioning in business should be bereft of gender biases. They do not say for any preferences for women workforce but argue for a certain kind of gender orientation whereby the male and female workforces are treated at par. Feminist ethics theorists underline the relevance of harmonious relations in organizational functioning and do away with those stereotypes which stem from a patriarchal approach.

Discourse Ethics

Discourse ethics advocates the adoption of norms only after a thorough and rational reflection of the impact of ethical conflicts on all the relevant stakeholders. In this sense, discourse ethics is dynamic, unlike traditional ethical theories based on fixed norms. As per discourse ethics, ethical decision-making involves norm generation on a case-to-case basis rather than adopting conventional norms about deontological and teleological moral systems that cannot be defended via rational arguments.

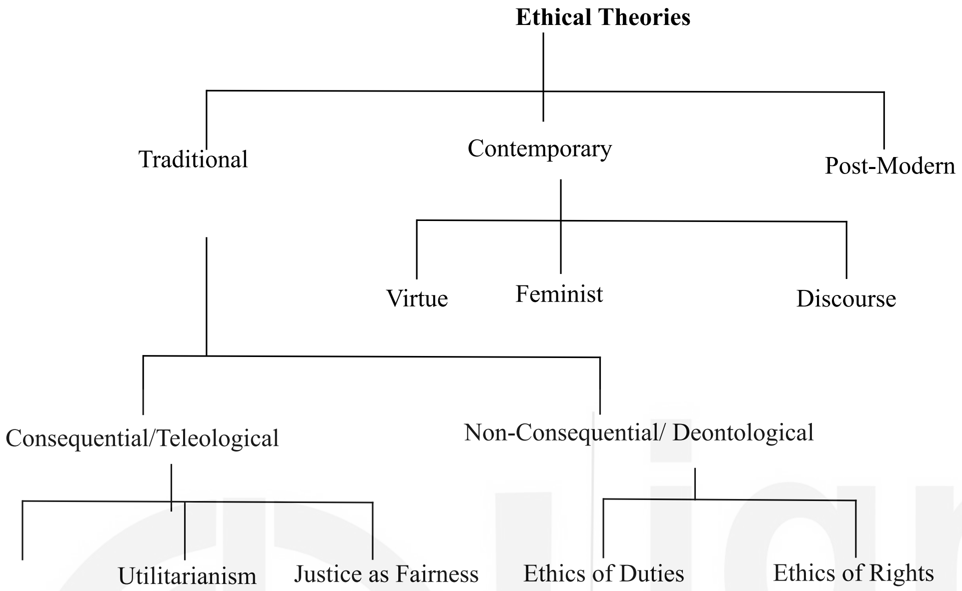
Discourse ethics advocates that the concerned stakeholders meet for norm generation. Discourse ethics theorists also call upon the powerful groups to avoid flexing their muscle power while negotiating for norm generation and finding a peaceful settlement to disputes. Discourse ethics in managerial decision-making seeks to engage external stakeholders like consumer groups, civil society organizations, and governmental regulatory agencies. Discourse ethics calls upon managers to be conscious of not only the legal obligations but also the social obligations of the firm. In today's corporate world, environmental ethics, corporate social responsibility, and ideas like Porter's creation of shared value are increasingly becoming relevant in managerial decision-making.

Postmodern Perspectives

As the term 'postmodern' suggests, this perspective is fundamentally opposed to the various theoretical approaches that emerged in modern Europe ever since the Reformation, Enlightenment, and Renaissance period. Post-modernist theorists argue that reality is too complex to be viewed from a singular lens of the 'grand narratives in the form of liberalism, Marxism. According to post-modernist thinkers, everything is relative. It is an approach that views 'morality' as a by-product of our emotional impulses. It calls for questioning the established norms and practices and following inner convictions and the 'gut feelings of the individual concerned.

Although some critics are critical of postmodern ethics, stating that it does not provide any reliable anchors to enable ethical decision-making, defenders of postmodern ethics have come out with compelling arguments suggesting its relevance in business ethics. First, post-modernist ethics does not believe in separating the personal from the professional. It argues that morality constitutes the inherent ethical personality of the concerned subject, and personal morality is bound to affect managerial decision-making. Due to these reasons, some have criticized postmodern ethics by arguing that allowing managers to follow their moral impulse justifies questioning established practices and create tensions in the workplace. Another feature of post-modernist ethics is its emphasis that reality is too complex to be viewed from the singular lens of 'grand narratives. Therefore, it urges managers to contextualize their decision-making. In other words, it encourages managers to '*think local, act locally*.' For instance, the act of gift exchanges in a professional capacity is considered not only unethical in the USA but illegal as well. However, suppose one believes the business environment in China. In that case, gift exchanges are integral to developing business networks (called *guanxi* in Mandarin) and are not only accepted but encouraged.

The table below is a diagrammatic representation summing up the three broad categories of ethical theories:



Activity 2

Differentiate between Traditional and Contemporary Theories of Ethics.

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2.6 LIMITATIONS OF EXISTING THEORIES

The abovementioned theories are criticized because they fail to reflect complex business situations, which are rife with grey areas in decision-making. Business negotiations, gift exchanges, romance in the workplace, and the practice of compensating CEOs with hefty bonuses are issues laced with ethical issues. Kantian deontology, Utilitarianism, and Shareholder theory can provide minimal guidance. None of these theories have readymade answers to address the problems like gender biases in the workplace and industry-specific ethical decision-making.

Elaborating on the shortcomings of existing theories, two eminent business ethics scholars have argued for what they call an 'integrated social contract theory.' Citing the example of defining what constitutes unethical compensation, they say that it is not feasible to describe it with any of the existing theories. Citing reasons supporting their contentions that all humans function with what they call 'bounded moral rationality.' Further responding to the reasons behind bounded morality argued a) human beings have the finite human capacity, b) ethical theories have limited capacity to capture moral truth, and c) economic systems are dynamic with no fixed set of rules and regulations, making ethical dos and don'ts cast in stone. Therefore, it is argued that bounded moral rationality leads to a) moral relativism owing to temporal and spatial differences, b) grappling with abstract ethical theories that invariably fail to solve ethical dilemmas, and c) dealing with ethical dilemmas stemming from culture-specific appeals.

2.7 BUSINESS ETHICS: GOING BEYOND CYNICISM

The subject of business ethics has often been dismissed as an oxymoron. However, in the past few years, numerous scandals like the Cambridge Analytic a scandal, the Volkswagen diesel gate scandal, and the We Work scandal involving its founder CEO Andy Neumann have pointed out the growing role of economic globalization and technology impact on a firm's decision making. Given the above description regarding various theories, a wide array of questions needs our consideration while discussing the question of business ethics:

- Who are the chief protagonists or the central actors, and what should they do while facing an ethical dilemma in the workplace?
- What course of action do the concerned subjects need to take?
- What values are at stake, and how does one prioritize values?
- Whenever there is a 'right versus right' dilemma, how do we accord priority to one set of principles at the cost of others
- In the words of Edward Freeman, how does one grapple with the questions of 'integration thesis,' fulfilling 'responsibility principle' and engaging in 'open question argument.'

According to one of the leading business ethics scholars, Lynn Sharpe Paine, unlike the common perception, ethical decision-making is an integral part of the managerial agency for the following reasons.

1) To treat ethical decision-making as a matter of subject to be exempted is to fail to acknowledge that, like any other human activity, it is fallacious to treat business ethics as an oxymoron. Ethical dilemmas in the world of business are no different from the kind of dilemmas that we face in our daily lives.

2) Business organizations are not entities like Robinson Crusoe on islands. Businesses being an integral part of society's functioning, issues like ethics of marketing and advertisement, a firm's legal and social obligations are impregnated with the impact of the firm's decision-making on society.

3) Lastly, discussing the implications of managerial decision-making regarding ethical dilemmas is pertinent because, inevitably, one ends up debating the merits and demerits of ethical theory. For instance, can a direct application of a specific ethical theory resolve the ethical and moral challenges in the workplace, or given the complexities of decision-making, which is rife with grey areas, calls for special

considerations that end up challenging the basic principles of existing ethical theories.

It is worth mentioning that specific social roles are believed to be governed by certain special norms. For instance, a doctor or nurse must be more sensitive to patients' feelings in the medical profession. Notwithstanding the virtues of speaking the truth and the validity of the saying, ' honesty is the best policy, doctors need to exercise discretion while counselling patients regarding their illness. A patient suffering from an acute disease can get demoralized if the doctor speaks blatant truth without considering the ethics of care. Similarly, in some Norwegian countries, those in the profession of audits and accounts must undergo an ethical training course once every three years to renew their license. Although professionals associated with this profession complain that they are subjected to rigorous ethical standards, the rationale behind such a mandate is that accounting professionals must practice the virtue of transparency to the utmost. Similarly, civil engineers involved in bridge construction must exhibit the highest degrees of honesty to ensure that they do not compromise the safety of passengers and other civilians. Since certain sections are involved more directly in serving society and bearing a direct impact on social welfare, they need to abide by existing certain norms. In the world of business, the Food and Beverage Industry, the tobacco industry, online gaming industry, and aeronautical industry directly impact individuals' health. Therefore, divorcing ethics from managerial decision-making is tantamount to gross neglect of a firm's social responsibilities.

Apart from the above considerations, ethical decision-making in a firm is strongly associated with the distribution of power in a business organization. A centralized bureaucratic power structure may lead to a lack of tolerance for constructive discussions and provide space for the difference of opinion. Such organizations are liable to suffer from the pitfalls of rigid power structures and groupthink. Furthermore, as one ascends in the hierarchy of managerial decision-making in a corporate organization, the responsibility of making sound managerial decision-making and stakeholder management gets more pronounced. For instance, a new entrant in a business organization is not subjected to the same pulls and pushes of ethical decision-making as a middle-rung manager or a CEO. As the saying goes,' with great power comes great responsibility. Each role in corporate hierarchy brings in its own set of unique challenges.

In this unit, we have discussed various ethical approaches. Each of these approaches guides us from one angle. While it is true that no one approach is a universal answer to moral decision-making, knowledge of these approaches enables us to make ethically informed decisions. These approaches complement each other rather than being mutually exclusive to each other. Further, the complex business world does not give decision-makers any scope to dogmatically apply these theories. Invariably ethical managerial decision-making demands a pragmatic approach since humans are not only rational beings but also experience a wide gamut of emotions. However, deciding on the most practical way of resolving an ethical dilemma also requires a basic understanding of various ethical approaches.

2.8 SUMMARY

In this unit, we have discussed an array of ethical theories. While none of the views can claim their superiority over the other, each is of immense significance in enriching the way we approach ethical decision-making. Each of the ethical approaches sheds light on ethical perspectives from different perspectives, and the same problem can work in a complementary rather than mutually excluding problem. The diagrammatic representation of the various ethical approaches potentially enables business actors to comprehend an ethical issue that one confronts in the workplace, the associated problems and dilemmas, and workable solutions and justifications.

2.9 KEYWORDS

Traditional Ethical Theories: Traditional ethical theories are concerned with what kinds of actions are right and wrong, how the world is and how it ought to be, what kinds of decisions are made and what kinds of decisions ought to be made.

Teleological Theories: The Teleological class of theories provide one with a two-step approach to determining the right course of action: first, determine the proper end and then decide the means for achieving it.

Deontological Theories: The deontological class of ethical theories states that people should adhere to their obligations and duties when engaged in decision making when ethics are in play.

Utilitarianism: Utilitarianism is often equated with the concept of "the greatest good for the greatest number of people.

Post-Modernism: Post-modernism is not based on universal or unchanging principles. According to post-modernist thinkers, everything is relative. It is an approach that views 'morality' as a by-product of our emotional impulses.

2.10 SELF-ASSESSMENT QUESTIONS

1) Is ethical theory of any use in the real world of managerial decision-making? Discuss by citing some examples from current business practices.

2) Of the various ethical theories discussed in this unit which ethical theory is most applied to overcome ethical dilemmas in workplace? Why do you think this is so?

3) Discuss the various merits and demerits of each of the ethical approaches discussed in this unit.

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UNIT 3 ETHICAL DILEMMAS

Structure

3.0 OBJECTIVES

After reading this unit, you should be able to:

- Appreciate the nuances involved in ethical decision-making
- Develop an ability to avoid knee-jerk reactions to ethical dilemmas
- Understand various approaches to confront and overcome ethical dilemmas
- Understand the concept of Social Accounting and its linkages with Ethical Decision-Making

3.1 INTRODUCTION

We are confronted with the challenges of ethical decision-making in our daily lives. Invariably we also make judgments about the ethical aspects of the events that happen around us. Often, our reaction to the events we do not deserve in our perception is to react by stating, 'it's not fair.' Responses like this bear ample proof that each of us has our understanding of what constitutes 'fairness' and 'justice'. Like any of us, the people in our personal and professional lives constantly judge our actions.

Ethical decision-making is challenging because our efforts are constantly under scrutiny. It is pertinent to understand and appreciate the various aspects of ethical decision-making. But a more fundamental question is what constitutes an ethical decision. Multiple factors include an ethical decision. However, some important ones are as follows:

a) **Other-regarding actions:** Utilitarian thinkers like Bentham divided human activities into self-regarding and other-regarding. In the context of ethical decision-making, managers need to be very conscious of other-regarding actions, thatis, those actions which the manager as an agency of the firm. Since the firm's legal and social obligations tend to get fulfilled by the managerial agency and managerial decision-making has a bearing on the social good, it is pertinent for managers to consider the impact of their actions on others

b) **Availability of More than One Choice**: Any ethical decision-making involves a sense of moral judgement, which determines our choice to prioritize one action over others that are available to us. The availability of more than one ethical choice leads us to face ethical dilemmas.

c) **Perception of Our Actions by Other Stakeholders:** It is not enough to analyze our actions and ethical choices through the lens of self-regarding and other regarding. A manager also needs to consider other stakeholders' perceptions regarding their actions. If others perceive managerial decision-making to impact other stakeholders' welfare of different stakeholders and have ethical implications, then a certain degree of managerial caution is required.

Thomas Jones, a prominent scholar on ethical decision-making, advanced a four-stage process. According to the Jones model, individuals experience a process whereby they 1) Recognize a moral issue (moral recognition), 2) Engage in moral judgement, that is, determining which action is the most appropriate ethical choice 3) Establish a moral intent and 4) Finally act according to intentions. In the latter sections, we discuss some prominent ethical decision-making theories and models that enable us to overcome ethical dilemmas.

Let us take the example of an ethical issue that has garnered much attention in business organizations and involves a high likelihood of clashing personal and professional ethical issues. The media often covers stories of senior executives losing their jobs owing to some romantic entanglements in the workplace. Male and female executives have been fired for romantic involvement with their subordinates. Often, romantic entanglements in the office involve ethical issues related to conflict of interest and abuse of authority. Cases of romantic involvement in professional lives raise the following questions: a) To what extent romantic involvement in offices is a private matter, and b) To what extent may an employer restrict personal liberties in romantic matters?

Some corporate organizations have employment rules that overtly discourage their employees' freedom to date co-workers. These rules have attracted wider attention today due to the growing number of women in the workplace. Although this issue is rife with ethical implications, it has been covered far more extensively by scholars belonging to the legal domain. Several reasons cause corporate organizations to dissuade employees from engaging in romantic involvements. First, employers advance the argument that the organization has a moral duty to protect its employees from sexual harassment in the workplace and prevent the possibility of adultery by married employees. Second, there are specific sectors in the industry where employee romance restrictions are based on the inherent conflict of interest. Third, some corporate organizations perceive romantic involvement between their employees as a significant irritant to efficiency at the workplace. The argument advanced is that romance in the workplace severely impacts overall workplace productivity and should be banned. Finally, employers are highly vigilant about workplace romance. This vigilance is owing to a) possibility that a breakdown of workplace romance can vitiate the workplace environment and b) in case of superior-subordinate romantic involvement, possibilities of conflict of interest may lead to other co-workers raising grievances on the grounds of favoritism.

Considering the discussion above, we can divide the factors affecting ethical decision-making into two broad categories: a) individual and b) situational factors. Individual factors concern the individual ethical personalities making a particular decision. These factors about an individual's ethical biases stem from one's natural traits and socialization. Situational factors include a specific context that determines the ethical decision-making of the protagonists. These situational factors include incentive systems, job roles, and the prevailing ethical climate in the organization. Situational factors are further classified into a) issue-related factors: depending on and b) context-related factors.

3.2 ETHICAL APPROACH TO ETHICAL DECISION-MAKING

In his work "The role of Ethics in the Framing of Decisions," Miquel Baston explains how ethical approaches can be adopted to improve decision-making and labels this challenge as a 'structuring problem.' Baston describes this problem as 'the point in which the contributions of ethics could be recovered to improve the theory of decision.' Further, Baston contends that the structure of a decision problem comes from finding answers to the following questions: a) what can I do in this situation? B) What outcome will the action have? And c) what is the goal? Each of these questions can be briefly elaborated on as follows:

a) **What can I do in this situation?** It involves exercising all the faculties possible to determine the feasibility of exercising the various possible actions open to them. This phase is known as 'operating' the decision problem. This stage involves assessing the costs and the objective assessment of weighing options to arrive at the most efficient options available. This stage consists in summoning all the courage and fortitude

b) **What outcome will the action have?** This question involves engaging in a cost-benefit analysis of the results of the action the subject decides to perform. This stage involves 'predicting' the outcomes of the step. It assesses the protagonist's knowledge to be prudent and exercise one's moral faculties to determine which action will lead to the most just and fair solution. This stage calls for developing the ability to establish a sense of certainty regarding the various possible outcomes that are likely to follow

c) **What is the Goal?** Assessing the costs and benefits of the actions possible involves determining the subject's final motives while acting. In short, it consists in evaluating the various outcomes of an effort. This stage involves a certain sense of moral intent and moral will to execute a specific action finally.

3.3 OVERCOMING ETHICAL DILEMMAS

We are frequently confronted with ethical challenges in our daily lives and are often in a dilemma regarding the right thing to do. While the judgements we make to exercise our decision-making in our daily lives. Whereas the decision-making in our capacities only affect sour immediate family and us, relatives and friends' decision-making in a professional capacity can make a difference to a larger ecosystem. An engineer who takes bribes and ignores the construction of unsafe bridges and a doctor who prescribes expensive drugs for commissions they get from medical representatives are examples of wrong ethical choices made by people in their professional capacities. In the corporate world, managerial decision-making is more challenging because of the grey areas managers are likely to face. Therefore, business ethics education has paid great attention to ethical decision-making.

Business ethics scholarship has summarized ethical decision-making dilemmas of managers by mentioning five tensions a) personal morality versus professional ethics, b) individual welfare versus community welfare, c) short term versus long term, d) corporate need versus corporate greed, and e) error in judgement versus arrogance. The managerial agency being confronted with decision-making not only has to maximize shareholder returns but also ensure fulfillment of the legal and social obligations of the firm. In dealing with the dilemmas involving shareholder versus stakeholder management, the managers face the 'dirty hands' problem. Joseph Badaracco Jr., one of the formidable scholars in business ethics scholarship, calls it the 'right versus dilemma.'

Badaracco's landmark work, 'The Functions of the Executive' on managers and business organizations, talks about the 'four spheres of Executive Responsibility.' According to Badaracco Jr., every manager has four spheres of executive responsibility. To begin with, they have their own set of individual values and ethical personalities. While consequentialist approaches influence someone's ethical values, others adopt a duty-oriented approach. Further, the manager is also motivated to uphold the rights of the shareholder and employees and even held accountable whenever the customers' rights stand violated. In addition, the manager is the custodian of organizational values and is influenced by Aristotle's virtue ethics. Aristotle's virtue ethics advocates that virtuous conduct is more of a habit than a choice. Those who are habitually ethical experience less moral inertia while doing the right thing whenever confronted with an ethical dilemma. Finally, managers must contend with the various pulls and pressures and engage in a game of tug of war where he is pulled in multiple directions by one set of values against another. During such situations, the manager must be pragmatic.

Further, he should summon the courage to fulfill his managerial role and stay true to his ethical choices. In Machiavellian terms, the manager must use his discretion to play the ‘lion’ and the ‘fox’ when the situation demands. But when does the manager play the ‘lion,’ and when does he play the ‘fox.’ This dilemma raises a fundamental issue in ethical decision-making. Since a manager’s ethical decision manifests their moral judgement, it is pertinent to understand the process.

In the context of ethical dilemmas, business ethics education has been primarily influenced by Kohlberg’s theory of moral development and later James Rest’s moral schemas. In the last twenty years, a group of scholars in the domain of behavioral psychology called social intuitionists have provided new insights into individual decision-making. It is worth understanding the dominant view in ethical decision-making scholarship as advanced by Lawrence Kohlberg and James Rest which laid the foundations for studying ethical decision-making by highlighting the cognitive moral development of individuals.

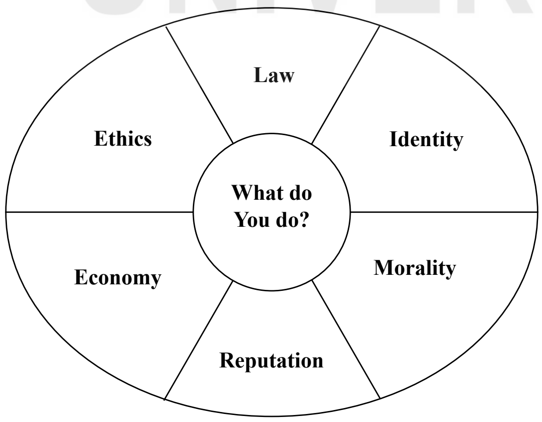
Lawrence Kohlberg is widely recognized as a leading authority on that individuals’ cognitive moral development occurs through three main stages: pre-conventional, conventional, and post-conventional. Further, these three stages were divided into two or more sub-stages. Kohlberg suggested that in the pre-conventional stage, an individual’s moral development is conditioned by the deterrent effect of punishment by authorities in social institutions like family and school. In the conventional stage individual’s morality is conditioned by an individual’s propensity to act following the mandate of the social mores and avoid indulging in those actions, which may lead to the breakdown of systems. Dan Ariely, a behavioral economist, in his work ‘The Honest Truth about Dishonesty,’ has put forward the concept of the ‘fudge factor,’ which highlights that humans tend to view themselves as honest even when they engage in deceitful behavior. This behavior stems from humans engaging in conduct that synchronizes with social mores. In the post-conventional stage, Kohlberg suggests that an individual’s moral development reaches a stage tendency stem from where he can elevate his overall moral personality and has a self-imposed obligation to engage in actions that make others happy. This personal obligation arises from one’s social contract with the larger society to abide by the legal and social mandate.

Rest spoke of four components in ethical decision-making, namely, moral sensitivity, moral judgment, moral motivation, and moral character. Let us try to understand each of these components. Most of us, unlike the saints with the clairvoyant ability and hard-headed criminals, are constantly challenged with ethical decision-making. We invariably get confused about the right thing to do during such times. In other words, we face ethical dilemmas. But facing a dilemma implies recognizing the co-existence of certain rights and wrongs in which we face dilemmas. Therefore, moral sensitivity or recognition is the awareness of conflicting ethical values. The person concerned is aware of ethical problems and engages in the process of ethical self-inquiry, like a) how does my behavior impact others, b) what are the various possible courses of action, and then determines the outcomes of each strategy. In short, this stage forces one to engage in moral reasoning, which facilitates one’s transit to the second component, moral judgement. Moral judgment is about choosing between the various courses of action after determining the various aspects of an ethical problem. It is essential to remember that the moral reasoning one exercises to choose a particular course of action over another determines moral judgment. Rest argued that defective reason stemming from insecurities, greed, and egocentric behavior clouds moral judgment. Business ethics education has conventionally based itself on the understanding that moral reasoning always precedes moral judgement.

The third component in Rest's model comprises moral motivation, whereby the subject is motivated by the twin factors of rewards and emotions. These rewards need not necessarily be monetary but can also extend to non-monetary ones. The final component in Rest's model comprises moral character. Let us try to limit ourselves to the first two components. According to Rest's model, moral reasoning precedes moral judgement. But as mentioned earlier, a new group of behavioral psychology thinkers like social intuitionists has argued that moral judgement precedes moral reasoning, and the latter is merely an *ex post facto justification* of the former.

3.4 ETHICAL NAVIGATION WHEEL AND OVERCOMING ETHICAL DILEMMAS

Scholarship in business ethics has not confined itself to dealing with the challenges of ethical dilemmas. Scholars also have advanced frameworks to help managers confront the challenge of ethical decision-making. As against Badaracco Jr's understanding of an ethical dilemma in terms of right versus right, two Norwegian scholars, Kvalnes and Ovarenget, perceive a moral dilemma as a situation that calls for a choice between two wrongs. The subject facing the moral dilemma is confronted with a situation where two moral values or duties are equally compelling. Still, only one of the two existing choices can be exercised. The two Norwegian scholars have advanced a six-step ethical navigation wheel to overcome ethical dilemmas. The following is a diagrammatic representation of the ethical navigation wheel.



Source: Kvalnes, Ø., & Øverenget, E. (2012). Ethical navigation in leadership training. *Nordic Journal of Applied Ethics*, (1), 58-71

One of the noticeable distinctions in the ethical navigation wheel is the distinction between ethics and morality. In our daily lives, we tend to use these two words interchangeably, but in the case of the ethical navigation wheel, there is a clear distinction that is brought out between the two.

Morality is understood as a set of beliefs and values developed over time. In this regard, morality stems from a certain kind of socialization that we experience instead of our close association and interactions with family, friends, school, and college. Ethics is a systematic approach that helps us deal with challenges stemming from moral relativism by equipping us with normative tools.

The six steps in the ethical navigation wheel are not to be considered as a universal solution that starts by asking questions arising from the legal aspects of the dilemma and ends with the ethical ones. Depending on the subject facing the dilemma, one can navigate from any section of the wheel to the other end. Prioritization and weightage to each of the aspects of the navigation wheel is a matter of individual choice. Each of the six elements in the navigation wheel can be briefly described as follows:

1) Law (Is it Legal): If a manager faces an ethical dilemma, one can begin by asking whether the managerial action is legally acceptable. Sometimes the legal obligations may not be the most preferred course of action, but it is the manager is obliged to fulfill the legal obligations of the firm and ensure that his actions do not violate the law of the land

2) Identity (Mapping with Values): Different professions can identify with a separate set of values. For instance, it is expected that professionals in finance and accounting are objective and transparent, and health professionals are expected to prioritize ethics of care. Therefore, managers need to map their decision-making with the values of their industry

3) Morality (Is it Right?): A manager facing a dilemma needs to question whether their decision-making is as per their morality. Morality, in this sense, is about one's basic understanding of right and wrong. Even though different individuals experience various kinds of socialization, there is some basic consensus on what constitutes morality among people belonging to a particular ecosystem. For instance, there is an Indian sense of morality, a Chinese sense of morality, and an American sense of morality. A certain sense of right and wrong is determined by a certain sense of morality derived from unique socialization patterns. In China, exchanging gifts in the professional world helps develop a friendship (guanxi in mandarin); therefore, it is not identified with corruption. In the west, exchanging gifts in a professional capacity is considered a bribe; it is not only unethical but also illegal.

4) Reputation (Impact on the Goodwill): Firms are very conscious of their image in the public domain. In today's world, where news travels extremely fast via social media, managers need to be very wary of the impact of their decision-making. Reputations come down like cards if important stakeholders perceive managerial decision-making poorly. Dissatisfied stakeholders can cause more than a dent in corporate reputation; therefore, managerial decision-making should consider stakeholder management's merits.

5) Economy (Impact on Firm's Profits): In managerial decision-making, the most acute challenge for managers is to make the right kind of

choices in the face of dilemmas that compel them to choose between the corporation's profits and the optimal ethical outcomes.

6) Ethics (Challenge of Justifying): To justify the ethical choices, we need to scan our proposed action through two principles, namely a) principle of equality and b) principle of publicity. The principle of equality states that similar cases should be treated equally. The only condition where a distinction can be drawn between two identical points is when they are morally different in at least one aspect. For instance, when do we know that a gift is a bribe? Using the principle of equality, we need to ask a series of questions. Some of these questions can be 1) Who is the giver and receiver 2) When was the gift given (before the contract, during the execution of a contract, or at the fag end of the contract), and what were the motives of the gift giver, etcetera. If the answer to these questions is different, then we can safely infer that a gift is other than a bribe.

The principle of publicity is about the conviction that we can defend our actions in the public domain without any sense of moral guilt. Suppose we can confidently defend our activities during our interactions with colleagues in the workplace, or we can share the decision we have taken with the people we love the most. In that case, we can be particular about the ethicality of our actions. In the case of ethical dilemmas, one can focus on all six questions on the navigation wheel. The conditions considering the various tensions amount to those between economy versus identity, law, morality, ethics, and reputation.

Activity 1

Draw the six-step ethical navigation wheel to overcome ethical dilemmas and explain each point briefly.

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3.5 LYNN PAINE'S CONCEPT OF MORAL COMPASS

Harvard University Lynn Paine offers a four-part 'moral compass' for guiding managerial decision-making. Paine recommended that managers develop the habit of examining the ethical aspects of every major and even the most routine decisions with/her team. Paine's four frames closely resemble Edward Freeman's stakeholder management theory and argued that it is fallacious to separate business and ethical conduct. Freeman advanced the integration thesis, which comprises two premises,1) every business decision has a moral component, and b) every ethical decision in the managerial capacity has a business component. Further, Freeman recommended that managers develop the 'responsibility principle' quotient and engage in an 'open question argument. 'The 'responsibility principle' invokes managers to accept responsibility for their actions. Finally, the 'open question argument' calls upon managers to engage in self-examination while carrying out their managerial role on the following lines 1) if a particular decision is made for whom the value is created and destroyed, 2) who is harmed and benefited with a particular decision? 3) whose rights are upheld and whose are violated by a specific decision? And 4) what kind of person I/We will become if I make the decision.

Lynn Paine's four frames of reference can be briefly described as follows. The first frame expects managers to examine the following question a) Will this action serve a worthwhile purpose? The basic idea behind this question is to make managers analyze the results in both short- and long-term consequences. Besides, they inspire managers to examine whether these results are worth pursuing critically. The second frame highlights the need to scan the executive action by subjecting it to a searching analysis by invoking ethical concepts and principles that address issues like norms of good governance, legal and social obligations of the firm, code of conduct, etcetera. To be precise, the second frame asks: Is this action consistent with relevant principles? The third frame deals with the consequences borne out of managerial activity. Such an exercise necessitates cultivating a sense of sympathy and empathy for the bearings of managerial action on other stakeholders. In short, the manager needs to ask: does this action respect the legitimate claims of the people affected? The fourth and final frame in Paine's moral compass inspires managers to dig deep and critically examine their ability to exercise their influence as managers. Therefore, this frame encourages managers to ask: Do I/ we have the power to act?

3.6 KIDDER'S ETHICAL CHECK POINTS

Rushworth Kidder, an ethicist, opined that ethical issues are overly complex and can be challenging. Kidder recommended nine-step checkpoints to tide over the complexities of ethical decision-making. The first checkpoint is to have moral awareness/sensitivity to recognize the presence of a moral issue. The second checkpoint is determining the protagonists and checking whether the concerned subject is involved. More importantly, the subject is mandated to bear responsibility and needs to take a desirable action. The third checkpoint is to ensure that the concerned subject considers all the relevant facts before making moral judgments and engaging in ethical decision-making. In fact, unlike common perception and understanding, unethical managerial practices are not necessarily due to a lack of ethical intent but are often caused by information asymmetry. Therefore, managers must address the question of inadequate information. The next checkpoint is to determine whether the ethical issues are right or wrong. Kidder proposed a four-fold test to determine the right versus wrong issues. These tests are 1) legal tests which provide legal perspectives 2) the stench test/smell test, which gives an intuitive feeling about the appropriateness of the issue 3) front-page test, which helps us determine the ethicality of an issue by making us ask if our private actions are made public would we be comfortable with such a situation and 4) the mom test/aunt's test which helps us determine the right versus wrong of an issue by prodding us to ask whether our mother or our favorite auntie would approve of our judgement or action.

The fifth checkpoint is regarding the test for right versus suitable paradigms. The categories of these dilemmas are as follows a) justice versus mercy, b) short term versus long term, and c) truth versus loyalty. The sixth checkpoint is to apply checkpoints four and five, respectively. The seventh checkpoint encourages managers to move beyond dilemmas to trilemmas and exercise their 'moral imagination' to find out of box solutions. The eighth and ninth checkpoints concern deciding and then following it up with revisiting and reflecting.

In his book 'Organizational Ethics: A Practical Approach,' C E Johnson put forward his five 'I' format. The five 'I' format was expanded as a) identifying the problem, b) investigating the problem, c) innovating by exploring the broad range of viable solutions, d) isolating by zeroing in on the most appropriate solution, and then finally, e) implementing the solution.

Activity 2

Describe briefly Kidder's nine-step checkpoints to tide over the complexities of ethical decision-making.

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3.7 ETHICAL DILEMMAS, STAKEHOLDER MANAGEMENT AND SOCIAL ACCOUNTING

The ecosystems in which businesses function today are becoming increasingly complex. As the firm's agency, managers face ethical dilemmas from fresh debates around the firm's legal and social obligations. Whether it is new regulations owing to national security considerations or growing activism from civil society organizations, managers are increasingly subjected to ethical performance. But how does one measure the ethical performance of managers? Various initiatives have recently been undertaken in social auditing, environmental accounting and sustainability reporting, and even ethical auditing. For easy understanding, let us label these initiatives under 'social accounting.' According to Crane and Matten, social accounting 'is the voluntary process concerned with assessing and communicating organizational activities and impacts on social, ethical, and environmental issues relevant to stakeholders.'

Despite the term's popularity, there is a lack of consensus regarding what constitutes the process of social accounting. The lack of formal standards and established assessment parameters or industry-wide accepted norms for organizational communication with stakeholders has made the challenge of social accounting more formidable. Social accounting has confined itself to stakeholder consultation and dialogue. Since the managers function as agents of the firm, the firm's actions are deciphered by how they confront ethical dilemmas. These dilemmas can be broadly summarised as stakeholder management. Growing public scepticism of the corporate organizations and even resurfacing of economic nationalism prompting the market-friendly states to regulate corporates owing to perceptions related to national security compromises have led to renewed discussions on social accounting.

Given renewed attention to social accounting, examining some factors that have brought this theme under more significant consideration is pertinent. Appreciation of these factors will enable managers to develop a more informed understanding of the various repercussions of resolving ethical dilemmas at the workplace. Growing pressures from government, civil society organizations, social media, industry associations, and consumers, apart from internal sources like employees and shareholders, make managers compelled to re-evaluate their actions whenever they confront ethical dilemmas. Yet another factor that has made social auditing critical is its relevance in helping managers identify risks. Identifying potential risks has led to managers' ethical decision-making revisiting how they confront ethical dilemmas. This kind of risk identification has facilitated improved stakeholder management. Improved stakeholder management translates to a higher degree of accountability and transparency.

As leaders of their firms, managers are perceived as major ethical drivers in establishing or driving change. As public leaders, managers not only consider themselves as influencers but are widely perceived as change agents representing their organizations. Ethical decision-making occupies a critical role in managerial decision-making because organizational transformation, as per changes in the larger ecosystem, demands that firms' goals are confined to their financial performance and environmental and societal contribution. Today's 'wicked problems and grand challenges facing businesses desire new managerial abilities in dealing with delicate issues concerning multiple constituencies and their perspectives prevailing in the larger ecosystem.

Managers can relate to their constituencies from three broad orientations: immorality, amorality, and morality. Immorality pertains to adopting unethical approaches whenever managers face ethical dilemmas. Immoral management means consciously adopting those practices against ethical principles of justice and fairness. Amoral management implies that although the managers are not deliberately executing actions that will hurt the internal and external stakeholders, they tend to be indifferent or negligent. Stakeholders' interests are negotiable in exchange for the firm's economic interests. Moral management by owners includes conscious steps managers take to incorporate ethical practices. Such managerial actions include establishing transparent codes of conduct, and fair treatment of shareholders, employees, customers, and other vital stakeholders.

Complex ethical dilemmas in the corporate world involve making difficult choices among divergent interests. The manager must play the game of tug of war with multiple constituencies. Individual managers can clearly understand their actions and motivations by distinguishing them from others. Having an informed understanding of the ethical rationale behind their decision-making, managers can critically reason and develop empathy towards other stakeholders. Invariably ethical decision-making is compromised owing to ignorance and bias, the twin factors that hinder moral awareness. A wide range of ethical principles and tests have been discussed in this unit to help managers draw on when they are confronted with ethical dilemmas. As discussed earlier, the business landscape is evolving very swiftly. Do the various models and tests enable managers to deal with ethical dilemmas in the workplace in the real world? Whether it is the navigation wheel or any other model dissecting the ethical issues is always a thankless task. The various stages and processes of varying urgency make it difficult for managers to develop objective criteria to resolve ethical dilemmas. Moreover, the various individual factors and situational factors further exacerbate the issues. Nevertheless, the different models and tests presented in this unit enable managers to minimize, if not eradicate, their individual biases while confronting ethical dilemmas.

3.8 SUMMARY

Given the rapid pace of changes in the business landscape and growing complexities in managerial decision-making, it is very pertinent for managers to develop some awareness and knowledge about objective ways of overcoming ethical dilemmas. This unit has broadly discussed the individual and situational factors in decision-making. However, beyond these factors, it is critical for management school participants to understand the relationship between moral sensitivity/awareness, moral reasoning, and moral judgement. Kohlberg's theory of moral development and James Rest's theory have been the dominant theories concerning ethical decision-making. These theories have focussed on individual factors in ethical decision-making. However, many other approaches have been advocated focussing on situational factors. Some noticeable ones are the ethical navigation wheel, Lynne Paine's, and Kidder's ethical checkpoints. This unit also highlights how ethical decision-making of managers will not only enable them to become better in stakeholder management and more effective agencies to enhance the firm's social accounting.

3.9 KEY WORDS

Ethical Decision-making: The ethical decision making process recognizes these conditions and requires reviewing all available options, eliminating unethical views and choosing the best ethical alternative.

Ethical Dilemmas: An ethical dilemma takes place in a decision-making context where any of the available options requires the agent to violate or compromise on their ethical standards.

Ethical Navigation wheel: The Navigation Wheel offers a framework for analyzing concrete ethical dilemmas.

Moral Compass: Moral compass as the person's ability to judge what is right and wrong and act accordingly.

Social Accounting: Social accounting is "the measurement and reporting of information concerning the impact of an entity and its activities on society.

3.10 SELF-ASSESSMENT QUESTIONS

Exercise

You are a senior manager in a corporate organization in the food and beverage industry. You are about to launch a new product, a new beverage that promises to be a game changer and catapult you to be the number one player in the industry. With only two weeks before the launch, you know that the new soft drink your firm is about to launch will severely impact the consumers' health. The reason is that the soft drink is prepared from contaminated water. The dirty water is being drawn from a region that has witnessed increasing instances of groundwater pollution due to the local farmers' overuse of pesticides and other chemicals. The firm has water treatment facilities in its plant, but the existing facilities have failed to treat the polluted groundwater comprising harmful chemicals. As soon as you know that the new soft drink will be highly damaging to the consumers, you escalate the matter and seek the CEO's appointment. The CEO has a meeting with the topmost executives of the firm and agrees to give some time to his team to address the issue. After a few days, the group explored the diverse options available to the firm but concluded that the only solution to deal with the situation was to postpone the launch of the soft drink. Once the team led by the manager apprises the CEO of the problem, the latter states adamantly that under no circumstances he will not allow the delay of the launch of the soft drink. He says that postponing the launch will lead to a significant compromise with the firm's reputation.

Further, it will harm the firm's IPO scheduled in a month. The CEO promises that once the product is launched, the firm can invest in state-of-the-art water treatment facilities and set things right shortly. As a senior manager, you are concerned about the impact of the soft drink launch on consumers. The effect will be far more detrimental to the health of consumers like pregnant women and children. The CEO walks out of the meeting, stating that the only thing that matters in business is profit, and under any circumstances, he will not allow the postponement of the product launch.

Given the above case, answer the following:

1. As a senior manager, what would you do? How do you resolve the ethical dilemmas arising out of this situation?

2. What are the assorted options available to you, and how do you engage in a cost-benefit analysis of each option?

3. Use the various theories/tests/ techniques mentioned in the unit to exercise the best feasible option/ Can you use any of the theories to convince your CEO to delay the product launch? If yes, how?

3.11 REFERENCES/ FURTHER READINGS

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UNIT 4 ETHICS IN BUSINESS

Structure

4.0 OBJECTIVES

After reading this unit, you should be able to

- Appreciate the relevance of ethics in business
- Understand and appreciate the individual, organizational and societal factors in business ethics
- Appreciate the triangular relationship between business, government, and Civil society organizations
- Appreciate the changing ethical mandate of business

4.1 INTRODUCTION

The onset of liberalization, privatization, and globalization forces in the 1990s have extended corporations' footprint beyond their domestic markets. The corporate footprint in foreign markets was limited during the Cold War era. The fall of the Berlin wall and the disintegration of the erstwhile Soviet Union led to a new wave of economic globalization. Although the world witnessed economic globalization in the past, the scale and magnitude of globalization were unprecedented. Consequently, there has been a multifold expansion in the number of stakeholders, making it extremely difficult for managers to engage in stakeholder management. New opportunities also meant new challenges to adapt to foreign markets regarding their social and cultural norms. Firms had to engage in businesses with the utmost sensitivity. The expansion of business opportunities has also coincided with rapid technological advancement, especially in communications. The emergence and rapid growth of mobile technology, the internet, and in the later years, social media means that corporates can make or mar their brand with their actions. The activities of a corporation in one part of the world can be spread to various parts of the globe in a matter of minutes leading to significant repercussions for the firm's reputation. Growing clamor for foreign investment by the developing countries owing to an era of economic deregulation and the accompanying stiff competition also meant that corporates had a tough time drawing a line in terms of their ethical boundaries and maximizing profits. Sweatshops, advertising, and marketing ethics determine the legal and social obligations of the firm in an uncertain environment. These developments have caused renewed discussions and debates regarding the ethical aspects of the business.

Before we discuss some of the vital aspects of ethical aspects in business, we need to have a preliminary idea regarding what constitutes business ethics management. For our convenience, we would consider Crane and Matten's dissection of what includes business ethics management. According to Crane and Matten, the following are some of the critical components of business ethics management, namely a) mission or value statements, b) codes of ethics, c) reporting advice channels, d) risk analysis and management, e) ethics and vigilance officers and committees f) ethics education and training and matters related to g) financial issues connected to auditing, accounting, and reporting. Let us try to investigate some of these essential components briefly.

Mission statements can be very generic statements regarding the aims and values of any corporation. Some notable examples in this regard are a) Google's motto of 'Do the right thing,' b) Swedish furniture giant Ikea's vision to 'create a better everyday life for everyone,' and c) Indian pharmacy giant CIPLA's tagline stating, 'For us, the final measure of our success is a simple curve-the smile of health regained.' While it is prevalent for corporations of varying sizes to have mission statements, one is not sure what impact these mission statements have on the organization's ethical climate. A Code of ethics constitutes yet another ethical aspect of business ethics management. Professional integrity and employer expectations dominate these codes of conduct. Still, it is alleged that these codes are typically one-sided and tend only to safeguard a firm's interests emphasizing duties but remaining vague and silent about the rights of the employees. Available channels to report unethical conduct at the workplace and the availability of platforms to register or receive advice-regarding ethical dilemmas can be vital means of detecting and resolving problems. Organizations are introducing novel ways to maintain anonymity and encourage employees to speak about unethical conduct in the workplace. For instance, setting up hotlines to address ethical grievances. Internal Complaints Committee in the form of workplace harassment, sexual harassment is another example in this regard. Social and financial auditing has compelled corporations to develop an ethical lens in risk analysis and management.

Nowadays, it is common to see corporations having appointees with the title of chief vigilance officer or chief ethical officer. Such developments indicate a growing realization among corporations of the need to set up departments with designated officers to address various issues concerning the organization's ethical climate. Some organizations have resorted to availing services of professional ethics consultants to avoid conflict of interests and biases in facilitating an ethical environment. Initially, ethic consultancies manifested in the form of services related to environmental ethics and sustainability. Due to the growing complexities in managerial decision-making, corporations realize the need to conduct ethical training workshops for their management teams at various levels. Finally, it is common knowledge that corporations are nowadays adopting accounting and auditing standards that are widely prevalent across the industry. Various activities related to measuring, evaluating, and communicating an organization's impacts and performance on various social, cultural, and environmental issues have a bearing on the stakeholders' well-being.

4.2 INDIVIDUAL FACTORS IN BUSINESS ETHICS AND LEADERSHIP

Every time there is an ethical breakdown in corporate organizations, there is a tendency to perceive ethical fallouts as a direct consequence of individual failure. But the reality is far more complex. Given the complexities in the context of decision-making in the corporate world fraught with grey areas, one needs to understand that ethical breakdowns of high proportions in corporate organizations are a consequence of not only individual managerial conduct but factors that go beyond the protagonists involved. Serious ethical breakdowns take place when specific managerial decision-making is influenced by organizational factors comprising internal and external stakeholders. Internal stakeholders include the board of directors, senior management, employees, and corporate decision-making structure (centralization or decentralization). Externals include the government's regulatory agencies, civil society organizations, and the media. In short, to have an informed understanding of ethical lapses, we need to understand ethical breakdowns by adopting the IBS (individual, business organization, and society) framework. To understand the IBS framework, we need to decipher the numerous factors that influence managerial decision-making at an individual level, examine the multiple factors concerning the organizational level decision-making, and then scan the societal factors.

Whenever a major ethical breakdown happens, it is commonly perceived that the CEO or senior management has engineered some compromises to cut ethical corners. While faulty managerial decision-making is responsible in some cases, in others, we are compelled to ask why 'good people often let bad things happen.' For instance, Mr. Ramalinga Raju, Former CEO of Satyam Computer Services, was considered a role model for leading Satyam as a socially responsible actor and won several awards. However, he still ended up as an unethical leader. Similarly, many senior managers and CEOs are religious-minded and lead principled lives but make the wrong decisions. For instance, let us take the case of the late Kenneth Lay, former CEO of the bankrupt organization Enron. He used to lead the Sunday mass prayers but still got involved in many decisions that led to Enron's financial and ethical bankruptcy. Besides this, CEOs and senior management sometimes develop a certain sense of 'defective reasoning leading them to assume that they are invulnerable owing to their positions of power and authority.

Moreover, CEOs function under a lot of stress. Given the pressures to produce time-bound results in the form of profits and maximizing shareholder value, they tend to cease reflecting on their choices to achieve desired results. Their tendency to ignore the means to achieve gains clouds their sense of judgement. In a study conducted by Ohio State University by Professor Paul Nutt, several organizational decisions were studied over twenty years. The study concluded that many decisions stemmed from short-term orientations leading to ethical breakdowns. The study further inferred that decision-makers, in their zealousness to achieve corporate profits, a) ignored ethical questions, b) came to pre-mature conclusions c) and had a limited sense of information.

Bazerman and Tenbrunsel have developed a specific set of concepts that provide a particular perspective regarding the defective reasoning managers develop while performing their managerial roles. Similarly, another prominent business ethics scholar Saul W Gellerman has raised the question, 'Why do good managers make bad ethical choices? Responding to this simple question is far more complex than it appears. According to Gallerman, even senior professionals lose perspective regarding the limits of ethical transgressions. As someone remarked, ' morality is just like a piece of art; it is all about drawing a line somewhere.' But where does this line start and end? Caught in the interplay between personal morality and professional ethics, organizational goals to maximize profits, and prove corporate loyalty as against one's sense of social obligations borne out of ethical compulsions, managers make tough calls. Sometimes senior management resorts to indirect blindness in ethical decision-making by luring middle and junior-level managers to do things they know are against the existing legal or ethical mandates. The common refrain among such senior managers is clubbed together in the form of what Gellerman calls 'four rationalizations,' which are as follows: a) A belief that the activity is within the reasonable ethical and legal limits, b) A belief that the activity is in the best interests of the individual and the company c) A belief that the unethical activity is 'safe' and will never be found out and d) A belief that the activity that helps the company will condone it and come to the rescue of the individual.

Often, managers work in an organization infested with a specific ethical climate where the organization sets impractical goals to achieve certain profit maximization levels. In business ethics, this is termed *ill-conceived goals*. Due to these ill-conceived goals, managers make ethical choices based on consequential approaches that drive them to *over-valuing outcomes.* Blind pursuit of these ill-conceived goals leading to overvaluing outcomes is caused by a certain degree of motivation which sometimes causes managers to ignore cutting all ethical corners leading to *motivated blindness*. Managers motivated to ignore ethical decision-making in pursuit of ill-conceived goals tend to suffer from a sense of *ethical fading*. The fading of ethical considerations in managerial decision-making eventually causes managers to make minor ethical infractions in the beginning. Subsequently, every ethical infraction tends to surpass the transgressions of the preceding one leading to a *slippery slope*. In short, managerial decision-making is not necessarily a function of individual misconduct but a manifestation of the significant tensions that managers go through during managerial decision-making. These tensions manifest themselves in the form of five binaries, namely a) personal morality versus professional ethics, b) individual versus the community, c) short term versus long term, d) corporate loyalty versus corporate greed, and e) arrogance versus error in judgement.

Moving from the discussions centering on the individual manager, one needs to have a more informed understanding of organizational factors in ethical decision-making. But more fundamental to discussions centering on corporate wrongdoing in the case of ethical breakdowns is the question: Is organizational wrongdoing normal or abnormal? For a considerable time, business ethics scholarship has considered organizational wrongdoings as an exception rather than a rule. But the latter day, researchers like David Palmer, working on this theme, have come to infer that organizational wrongdoing is not as much of an out liner as it is widely believed. They have persuasively argued that organizational wrongdoing is normal and have produced compelling arguments to support their thesis. Another question related to organizational factors in ethical decision-making is how does an organization's ethical climate or lack of it impact managerial decision-making and/her professional integrity? Further, to what extent is it relevant for an organization to develop an organizational culture that encourages its managers to be more open while discussing various aspects of managerial decision-making in the context of its ethical aspects? A more open culture that encourages healthy debates and discussions regarding ethical issues in the workplace tends to have a better ethical climate than the one in which managers are incredibly uncomfortable discussing the various challenges of ethical decision-making.

Senior management professionals in any organization play a critical role in setting the ethical tone of an organization. In recent times we saw how the Volkswagen scandal saw the involvement of the senior management, including the then CEO Martin Winterkorn and his inner circle. They engineered unethical means while Martin Winterkorn was CEO of the Audi division to maximize profits. After being made the Global CEO of Volkswagen, Winterkorn got his Audi team with him to replicate the earlier success. According to some observers, they were cutting ethical corners to make Volkswagen the number one player in the automobile industry led to the diesel gate scandal. Although evidence remains inconclusive regarding their direct participation, it is difficult to rule out that they were ignorant of the unethical practices in a centralized organization like Volkswagen. Similarly, the collapse of Enron in 2001, a significant player in the energy industry, suffered from a very toxic ethical climate due to unethical leadership.

For many scholars, managing is different from leading. Whereas management is about 'imposing order' via meticulous planning and organizing, leadership is about coping with change. In short, since leading involves contemplation on the right thing to do, it consists of straddling a particular moral terrain. Suppose one is to accept this dimension of leadership in today's fast-paced world. In that case, the right thing to do involves the task of influencing the ethical climate of the organization and inspiring the employees of the organization with ethical decision-making.

Activity 1

Explain different organizational factors in ethical decision-making.

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4.3 ORGANIZATIONAL WRONGDOINGS

Although there has been a tendency to perceive ethical scandals in terms of the managerial agency in one's capacity, one needs to scrutinize them in terms of the ethical climate of corporate organizations. For a long time, wrongdoings attributed to organizations were considered abnormal. These abnormal wrongdoings used to stem from the aberrant behavior of a few individuals in one or more instances. These scholars also attributed organizational wrongdoing to a few bad apples, that is, a few individuals who were inherently unethical and never shied away from cutting ethical corners in pursuit of their objectives. Similarly, some organizations are believed to be inherently toxic and are labeled as bad barrels. It is worth pointing out those organizations that are highly centralized and bureaucratic and function more with a top-down approach leave little space for managerial autonomy in decision-making. In such an organizational culture, more frequently than not, managers tend to have moral stress built over some time. Empirical studies on moral stress have concluded that it is the most critical cause of employee dissatisfaction, lack of satisfaction with the work, and high attrition rates. However, in the last two decades, another set of scholars argued that organizational wrongdoing causing ethical misconduct is not as abnormal as it is believed. Underreporting wrongdoings gives the impression that organizational wrongdoings are rare, but that is not the case in the real world.

For instance, in his article 'The New Perspective on Organizational Wrongdoing,' Donald Palmer argues that scholarship on organizational wrongdoing as an abnormal phenomenon is based on four assumptions. First, it assumes that organizational wrongdoing is a) rare, b) aberrant, c) abhorrent (from an individual managerial perspective), and d) caused by toxic culture in the organization. Scholars like Palmer contend each of these assumptions is based on false assumptions. In his work 'the New Perspective on Organizational Wrongdoing,' Palmer questions the assumptions earlier scholars made. First, he argues that treating wrongdoing as a rare phenomenon is faulty. This treatment has led to management education not paying due attention to the root cause of organizational wrongdoing and treating the problem as if it were a rare event. Second, it is amateurish to treat major corporate scandals like Enron and WorldCom in 2001-02 and later the subprime crisis as aberrant behavior. It is naïve to dismiss such major scandals as an 'irresponsible activity.' Third, it is wrong to say that wrongdoings in corporate stem from 'bad apples,' individuals who have flawed characters, since many of these corporate professionals are ordinary people like us in their personal lives. Therefore, it is wrong to be dismissive of them as 'psychopaths. 'Last, it is too simplistic to state that organizational issues cause certain corporate doings. Understanding the nuances of organizational functioning that lead to wrongdoings is critical. Many facets of an organization's wrongdoings become so integral to its functioning that they often cause wrongdoings.

Palmer argues that it is not the rarity of organizational wrongdoings that makes them rare but their gross under-reporting, which makes them rare. Palmer attributes organizational wrongdoing to four factors, namely, a) power structures, b) Administrative Systems, c) Situational Social Influence Processes, and d) Accidental Technological Systems. According to Palmer, organizations with a very centralized way of functioning can become very bureaucratic and top-down in their approach. In such organizations, the middle and lower management and their subordinate employees are expected to execute the decisions at their top without questioning their actions' ethical implications. In such organizations, the decision-making task is left to the senior management, and dissent from the lower ranks is not encouraged. In such organizations, there is no scope for internal whistle blowing mechanisms; whenever there is a scandal, dire consequences lead to public humiliation. The most recent example is Volkswagen's diesel gate scandal in the German automobile giant.

Similarly, suppose the power structures are decentralized with ample scope for internal discussions and debates in a conducive ethical climate, the possibility of unethical actions denting the organization's reputation tends to be low. For instance, in an organization like Johnson and Johnson, then James Burke challenged CEO Richard B Sellars to revisit the mission statement (called credo) of Johnson and Johnson, which was, till then, noteworthy for the organization. Initially, Sellars lost his temper and confronted Burke by arguing that he won't allow anyone to challenge the existing document under any circumstances. After a heated debate, the CEO hesitantly agreed to have a free and frank discussion on the organization's mission. Burke argued that if the 'credo' were no longer relevant, it is better to do away with it rather than have it for its symbolic value but went on to approve the changes post-discussions.

Highly centralized organizations tend to become bureaucratic. Other such organizations are afflicted with a culture characterized by Harvard Business School academic Robert Jackall as 'pyramidal politics.' In centralized organizations, power gets concentrated in the hands of the chief executive officer. There is always pressure from the top with rigid deadlines and targets in such organizations. In this MBO (management by objectives) system, there is a chain of command from the CEO at the top to the managers at the lower level of the hierarchy. In such organizations, the subordinates are expected to be different from their bosses. They are not supposed to engage in behavior exhibiting a certain kind of parity with the boss. In such organizations, the credit goes to the top, but the blame for failure goes to the bottom. The CEO wields enormous influence in such a corporation, and his wishes are treated as a command. Due to the high degree of centralization, the organizational culture is always characterized by fear and insecurity. Employees tend to lack the moral courage to speak out in case of organizational wrongdoings. They fail to develop a sense of ownership and perform their tasks robotically. Over time, they tend to develop moral stress if uncomfortable with the organization's ethical climate. The two options available are to be part of the collaborative cheating or resign and move on. Employees ignore wrong doings because they are likely to be labeled poor team players.

4.4 ETHICS AT WORKPLACE AND 'MORAL MUTENESS.'

Frederick Bird and Waters, two business ethics scholars in their article' moral muteness of managers', share that they were keen to know why most managers are not eager to speak about morality in their workplace. These two scholars observed that whenever a group of managers meets, they avoid discussing ethics in the workplace. They wanted to study why managers are morally mute in the workplace. Further, why do managers engage in such behavior, and what impact does it have on the organization? To narrow down their study on managers' moral muteness, they sought to map the congruence between managerial speech and action. The two scholars categorized managers into four distinct types based on the harmony or lack of it between organizational speech and action. Some managers have complete moral congruence between what they speak and what they do in the workplace. Then some managers have amoral congruence between their speech and action in their professional lives. The third type o managers comprise who lack agreement between what they speak and what they do. These managers are hypocrites who say moral but engage in amoral activities. There is a fourth category of managers who act morally but never speak about it. This managerial behavior where managers avoid using a moral tone in their verbal interaction is what Bird and Waters call 'moral muteness. 'Why do managers engage in this sort of behavior? What impact does this kind of managerial conduct have on the organizational culture?

Bird and Waters trace the origins of /' moral muteness' in the workplace to the conflict avoidance approach. Managers are aware that moral overtones in the workplace might lead to your morality versus my morality kind of conflicts. Besides impacting the overall efficiency of the workplace, these conflicts also vitiate the workplace. Further, managers tend to be constantly under pressure due to the constant scanning and microscopic observations of managerial actions. Addressing the issue of spillover effects of 'moral muteness' on the organizational culture, Birds and Waters contend that it leads to a) Creation of Moral Amnesia, b) Inappropriate Narrowness in Conceptions of Morality, c) Moral Stress for Individual Managers, d) Neglect of Moral abuses and e) Decreased authority of Moral Standards.

Activity 2

Explain the concept of 'Moral Muteness'.

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4.5 ETHICAL ISSUES IN RELATIONS BETWEEN GOVERNMENT, CIVIL SOCIETY ORGANIZATIONS, AND BUSINESS

Apart from the individual and organizational issues impacting business ethics, external stakeholders like Government and Civil Society Organizations (CSOs) significantly impact business ethics. The government is always in an unenviable space to maintain relations with business and society. On the one hand, the government depends on the companies to provide employment and generate economic demand. On the other hand, it encourages businesses and promotes business groups through tax concessions, special economic zones, and other subsidies. However, the government is also conscious of not being perceived as one, which encourages crony capitalism. Public scepticism of the corporation compels the state to initiate legal regulations to check rampant profit-making at the cost of social welfare. Given that governments in democratic societies must face the electorate, public accountability needs to be factored into governments dealing with businesses. This tripartite relationship between business, government, and society are characterized by issues laced with ethical overtones.

Corporate organizations influence the government's functioning in many ways. By forming interest groups and pressure groups in alliance with other players, corporations try to influence the government's policymaking in areas that are likely to impact their functioning significantly. Corporations also lobby with governmental officials, legislators, and politicians to influence policies favouring them. In many countries, corporate houses fund political parties with huge donations, which help these parties during electioneering. This kind of party financing is another way corporates influence policymaking. In some countries, like the US, CEOs of the topmost corporations are appointed as secretaries in the President's cabinet. After they complete their terms, they go back to the industry. Known as the 'revolving door,' such instances lead to ethical issues like conflict of interests with the CEO turned secretaries in the President's team using their position to dole out favours to their industry.

4.6 GLOBALIZATION AND BUSINESS-GOVERNMENT RELATIONS

Before the 1990s, the states had a monopoly in economic policy making. The governments used to regulate the corporate sector. The corporate sector was dependent on the government to seek favours. Over time, the government's monopoly diluted, and regulation intensity declined. Growing civic awareness, expansion of media, and exposure to regulatory practices in other countries led to the industry and other civic groups being more vocal about their demands while negotiating with the government. However, with the onset of globalization, the dominant actors of the previous era became dependent, whereas the dependent actor of the previous generation became dominant in the new era. The corporations became compelling players, with the state boundaries becoming permeable. With the emergence of the World Trade Organization with policies like the abandonment of agriculture subsidies, introduction, and implementation of Trade Related Intellectual Property Rights (TRIPS), and Trade-related Investment Measures (TRIMS), the power of the international bodies over state legislation got reduced over some time. These developments led to the corporation's growing influence and a new set of ethical issues. The corporate power of transnational withdrawal and their ability to negotiate terms of trade and investment with the developing and underdeveloped countries unfavourable to them involving human costs (sweatshops) brought ethical issues in international business into the limelight. Corporations seeking profits sometimes did not shy away from collaborating with highly authoritarian regimes.

4.7 BUSINESSES AND CIVIL SOCIETY ORGANIZATIONS (CSOS)

The growing activism of CSOs in the last three decades has also had challenges for businesses, especially in stakeholder management. Corporations are challenged to identify the right kind of CSOs, which are legitimate voices of the critical stakeholders. It is challenging for firms to assess which CSOs are worthy of their attention and worth negotiating. Further, firms find it difficult to judge whether the tactics used by CSOs are to gain attention or to represent the genuine concerns of the constituency it represents genuinely. In such cases, the manager's sense of judgement is conditioned by one's subjective interpretations. During globalization, MNCs must deal with an extended community of CSOs, including CSOs, in the markets they invest. Lack of familiarity with the social and cultural ethos can bring new ethical dimensions to decision-making. One of the contentious areas in the relationship between business and CSOs has been the contestability of 'globalization' itself. There are CSOs whose agenda is to question the process of economic globalization itself. For some CSOs, economic globalization is a capitalistic project that aims to pursue profits at the cost of exploiting the poor. With the growth in scope of globalization, CSOs have also got globalized, creating new points of tension in their interaction with corporate organizations.

4.8 CHANGING ETHICAL MANDATE OF BUSINESS

'The only business of business is to do business continues to have an overwhelming influence on managerial decision-making. However, the business landscape has undergone a significant transformation. Growing awareness about consumer rights, the breath-taking pace of technology development, civil society activism in the form of CSOs, and even the state and its regulatory agencies stepping in to restrain the blind pursuit of profits are notable developments in recent times. Given the more prominent ecosystem changes, managers must revisit their cost-benefit analysis criteria while making decisions. Globalization has reinforced the need for a fundamental shift in decision-making. Renowned management scholars like Michael Porter and Krammer have called upon firms to think of business strategies that aspire to the 'creation of shared value.' The idea is to revisit the assumption that business returns can be measured only in monetary terms. Firms must consider non-monetary returns and address growing public and government scepticism about their operations.

Consequently, managerial decision-making has become far more complex. Respecting the right of critical stakeholders like employees, customers, and society at large translates to the need to include the moral and ethical dimensions of decision-making. Managers faced with conflicting stakeholder demands are often perplexed regarding the prioritization of diverse stakeholders.

Firms have responded to this growing complexity in decision-making in diverse ways. Some have agreed to abide by the fresh legal mandate. While agreeing to fulfil the legal mandate, corporations have expressed their displeasure by highlighting that these new legal regulations are often vague and do not serve the best interests of society in the long term. Some firms have been initiative-taking by taking pre-emptive actions anticipating that new forms of state interventions in legislation will make businesses less competitive. A significant section of business ethics scholarship feels that many of the challenges businesses face today are due to an outdated image of themselves, inhibiting an adequate response to the changes in the larger ecosystem. The new ethical mandate to the company is not only found in such movements as environmentalism, consumerism, and conservatism but also in the form of excessive executive compensation, rampant pursuit of profits, sweatshops, and even outright cheating. For instance, Volkswagen's Diesel gate scandal was an attempt to cheat all the stakeholders, from consumers to governmental agencies, to become the leading player in the automobile industry.

The solution to diverse competing demands does not lie in legal and ethical codes, although these regulations serve a fundamental purpose. The answer to most of the issues lies in the firms' management revisiting its whole approach to stakeholder management. The need of the hour is to not only focus on the substantive aspects of decision-making but also invest energies in procedural aspects. These procedural aspects call for a significant shift in how corporations' function. Therefore, the need of the hour is to reinforce the centrality of ethics in managerial decision-making. Executive decision-making must be complemented by significant changes in the structures that will strengthen ethical decision-making. For instance, constant American Presidents have shifted their stance on the functioning of the Environmental Protection Agency. Regular changes in its functions have not done any good to the goal of environmental sustainability. To highlight another instance, in 1991, the US Federal Sentencing guidelines provided additional incentives to corporates for infusing ethics into their corporate structures. According to this law, when an employee engages in unethical conduct, the firm can reduce its legal culpability by demonstrating that it took adequate measures to develop a moral and ethical framework for its employees to enable them to engage in ethical decision-making in their professional capacity. Such interventions resulted in firms responding by appointing high-level personnel like the chief ethics officer and chief vigilance officer to oversee legal and ethical compliance, establish ethical auditing and establish mechanisms to monitor decision-making. In 2002, after the Enron and the WorldCom scandal, the US Congress passed the Sarbanes-Oxley Act to emphasize further the need to ensure legal compliance and encourage ethical action. But the 2008 crisis showed that the current mechanisms are at best necessary but insufficient to address the deep-seated malaises in how firms' function.

4.9 SUMMARY

The ethical decision-making of the firm has been treated as antagonistic to the profit-maximizing objective of the firm. Renowned stakeholder theorist Edward Freeman has been termed the 'separation fallacy.' Unethical business practices have been traced to individual factors like moral awareness, moral reasoning, moral judgement, and character. There is also a section in business ethics literature that examines organizational wrongdoings from an organizational perspective. Some scholars have opined that organizational transgressions are abnormal and stem from bad apples (individuals), bad barrels (organizations), and aberrant behaviour on the part of individuals and organizations. Of late, another set of scholars has argued that organizational wrongdoings are normal. These scholars have attributed the wrongdoing to hierarchical structures, administrative systems, and workplace socialization. The onset of economic globalization in the 1990s has redefined how businesses relate to external stakeholders like the government and civil society organizations. The growing breadth of stakeholders has further complicated the complex world of stakeholder management and managerial decision-making. These developments have brought in new challenges in managerial decision-making. A significant part of these challenges involves ethical aspects making it imperative for business school participants to understand that it is no more possible to talk of firms as profit-maximizing entities. Therefore, this unit attempts to sensitize participants about the need to look at ethical aspects of the business from an individual, business, and society (IBS) framework. To appreciate ethical decision-making, one needs to look at the various issues at the individual, organizational, and societal levels. Understanding the contours of the relationship between the three entities will give a holistic picture of ethics in business.

4.10 KEY WORDS

Organizational Wrongdoing: Wrongdoing in organizations such as waste and discrimination, legal violations mismanagement and sexual harassment etc.

Moral Muteness: Moral muteness occurs when we witness unethical behaviour and choose not to say or do anything.

Corporate lobbying: Corporate lobbying is when the corporations and the firms in the country try to take actions and influence the government in some way in order to get interest.

Motivated blindness: People see what they want to see and easily miss contradictory information when it's in their interest to remain ignorant.

Revolving door: It refers to the movement of high-level employees from public-sector jobs to private-sector jobs and vice versa.

4.11 SELF-ASSESSMENT QUESTIONS

1) What are the various individual factors that lead to unethical conduct in the workplace? Is it possible to explain ethical breakdowns only by examining the respective protagonists in the concerned case?

2) According to your organizational wrongdoings, normal or abnormal? Explain your viewpoint with the help of any corporate scandal that has taken place in the last ten years.

3) How has economic globalization redefined the relationship between government and business? Relate your viewpoints with the changes in the Government-Business interface in the Indian context

4) What are the ethical issues in corporate lobbying and the 'revolving door' phenomena in a government-business relationship?

5) CSOs have become too relevant as stakeholders to be ignored in a firm's decision-making. Do you agree with this viewpoint? Substantiate your answer with some examples from the Indian context which highlight the growing relevance of CSOs in firms' decision-making.

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