

What Is Ethics?

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WHAT'S COVERED

In this lesson, you will learn about the role of ethics in the legal and business worlds. Specifically, this lesson will cover:

1. Ethics and Morality

Most of those who write about ethics do not make a clear distinction between ethics and morality. The question of what is “right” or “morally correct” or “ethically correct” or “morally desirable” all mean the same thing: Which act is “better” in a moral or ethical sense than some other act?

Some people may speak of morality as something personal, but sometimes view ethics as having wider social implications; others see morality as the subject of a field of study, that field being ethics.

Ethics can be thought of as morality applied to any number of subjects, including journalistic ethics, business ethics, or the ethics of professionals like doctors, attorneys, and accountants. For our purposes here, ethics and morality will be used interchangeably.



TERM TO KNOW

Ethics

Moral principles that govern behavior and conduct.

2. Individual vs. Organizational Ethics

People often speak about the ethics or morality of both individuals and corporations and nations. There are clearly differences in the kind of moral responsibility that we can fairly ascribe to corporations and nations; we tend to see individuals as having a soul, or at least a conscience, but there is no general agreement that nations or corporations have either.

Still, our ordinary use of language does point to something significant: If we say that some nations are “evil” and others are “corrupt,” then we make moral judgments about the quality of actions undertaken by governments or people of that nation.

➔ **EXAMPLE** If North Korea is characterized by the U.S. President as part of an “axis of evil,” or if we conclude that Wells Fargo or Enron acted “unethically” in certain respects, then we are making

judgments that their collective actions are morally deficient.

In talking about morality, we often use the word "good;" but that word can be confusing.

IN CONTEXT

If we say that Microsoft is a "good company," we may be making a statement about the investment potential of Microsoft stock, or their preeminence in the market, or their ability to win lawsuits or appeals or to influence administrative agencies. Less likely, though possibly, we may be making a statement about the civic virtue and corporate social responsibility of Microsoft. In the first set of judgments, we use the word "good" but mean something other than ethical or moral; only in the second instance are we using the word "good" in its ethical or moral sense.

The word "good" can embrace ethical or moral values, but also nonethical values.

IN CONTEXT

If you like Daniel and try to convince your friends what a "good guy" he is, they may ask all sorts of questions: Is he good-looking? Well-off? Funny? Athletic? Smart? You could answer all of those questions with a yes, yet your friends would still not know any of Daniel's moral qualities. But if you said that he was honest, caring, forthright, and diligent, volunteered in local soup kitchens, or tithed to the church, many people would see Daniel as having certain ethical or moral qualities. If you said that he keeps the Golden Rule as well as anyone you know, your friends could conclude that he is an ethical person. But if you said that he is "always in control" or "always at the top of his game," your friends would probably not make inferences or assumptions about his good character or ethics.

There are three key points here:

1. Although morals and ethics are not precisely measurable, people generally have similar reactions about what actions or conduct can rightly be called ethical or moral.
2. As humans, we need and value ethical people and want to be around them.
3. Saying that someone or some organization is law-abiding does not mean the same as saying a person or company is ethical.



BIG IDEA

For individuals, it is difficult to recognize an ethical problem, have a clear and usable decision-making process to deal with it, and then have the moral courage to do what's right. All of that is even more difficult within a business organization, where corporate employees vary in their motivations, loyalties, commitments, and character. There is no universally accepted way for developing an organization where employees feel valued, respected, and free to openly disagree; where the actions of top management are crystal clear; and where all the employees feel loyal and accountable to one another.

3. Ethics vs. Law

There is a difference between legal compliance and moral excellence. Few would choose a professional

service, health care or otherwise, because the provider had a record of perfect legal compliance, or always following the letter of the law.

There are many professional ethics codes, primarily because people realize that law prescribes only a minimum of morality and does not provide purpose or goals that can mean excellent service to customers, clients, or patients.

Business ethicists have talked for years about the intersection of law and ethics. Simply put, what is legal is not necessarily ethical. Conversely, what is ethical is not necessarily required by law. There are lots of legal maneuvers that are not necessarily ethical; the well-used phrase “legal loophole” suggests as much.



THINK ABOUT IT

Here are two propositions about business and ethics. Consider whether they strike you as true or whether you would need to know more in order to make a judgment.

*Individuals and organizations have reputations. For an individual, moral reputation is most often tied to others' perceptions of his or her character: Is the individual honest, diligent, reliable, fair, and caring? The reputation of an organization is built on the **goodwill** that suppliers, customers, the community, and employees feel toward it. Although an organization is not a person in the usual sense, the goodwill that people feel about the organization is based on their perception of its better qualities by a variety of stakeholders: customers or clients, suppliers, investors, employees, government officials.*

The goodwill of an organization is to a great extent based on the actions it takes and on whether the actions are favorably viewed. This goodwill is usually specifically counted in the sale of a business as an asset that the buyer pays for. While it is difficult to place a monetary value on goodwill, a firm's good reputation will generally call for a higher evaluation in the final accounting before the sale. Legal troubles or a reputation for having legal troubles will only lessen the price for a business and will even lessen the value of the company's stock as bad legal news comes to the public's attention.

Another reason to think about ethics in connection with law is that the laws themselves are meant to express some moral view.

➞ **EXAMPLE** If there are legal prohibitions against cheating the Medicare program, it is because people have collectively decided that cheating Medicare is wrong. If there are legal prohibitions against assisting someone to commit suicide, it is because there has been a group decision that doing so is immoral. Thus, the law provides some important cues as to what society regards as right or wrong.

Finally, important policy issues that face society are often resolved through law, but it is important to understand the moral perspectives that underlie public debate.

➞ **EXAMPLE** The continuing controversies over stem-cell research, medical use of marijuana, and abortion illustrate differences in moral perspectives across society.

Some ethical perspectives focus on rights, some on social utility, some on virtue or character, and some on social justice. People adopt one or more of these perspectives, and even if they completely agree with an opponent on the facts, they will not change their views. Fundamentally, the difference comes down to incompatible moral perspectives, a clash of basic values.

These are hot-button issues because society is divided, not so much over facts, but over basic values.

Understanding various moral perspectives and values in public policy debates is important, especially when discussing ethics.



TERM TO KNOW

Goodwill

In business, the intangible qualities of a business that give it a good reputation; goodwill is considered to have monetary value.

4. Why Be Ethical?

The usual answer is that good ethics is good business. In the long run, businesses that pay attention to ethics as well as law do better; they are viewed more favorably by customers.

But this is a difficult claim to measure scientifically, because “the long run” is an indistinct period of time and because there are as yet no generally accepted criteria by which ethical excellence can be measured. In addition, life is still lived in the short run, and there are many occasions when something short of perfect conduct is a lot more profitable.

IN CONTEXT

In April of 2010, the BP Deepwater Horizon oil spill occurred in the Gulf of Mexico, causing extensive damage to marine and wildlife habitats, beaches, the environment, and fishing and tourism industries. Eleven people died in the explosion, others were injured, and criminal charges were brought against BP. It was estimated BP spent nearly \$62 billion in court fees, penalties, and clean-up costs. In all, an estimated 184 billion gallons of oil were spilled, and a federal judge found BP to have been “grossly negligent,” favoring speed over safety. Initially, the company’s stock value plunged by 55% of its value, but later recovered.

At the time of the spill, its then-CEO Tony Hayward was quoted as having carelessly said, “There’s no one who wants this over more than I do. I’d like my life back,” causing a wave of negative opinion against the company. Consumers were boycotting and investors were getting frightened, so the company had to take a look at its ethic of short-term profit maximization. Since then, changes have been made, and the company now invests in and promotes “sustainability,” voicing a commitment to the environment and safety.

The market does respond to unethical behavior, and the Arthur Andersen story is even more dramatic.

IN CONTEXT

A now-defunct major accounting firm, Andersen worked closely with Enron in hiding its various losses through creative accounting measures. Suspiciously, Andersen’s Houston office also did some shredding around the clock, appearing to cover up what it was doing for Enron. A criminal case based on this shredding resulted in a conviction, later overturned by the Supreme Court. But the damage was already done. Even before the conviction, many clients had found other accounting

firms that were not under suspicion, and the Supreme Court's reversal came too late to save the company.

The irony of Andersen as a poster child for overly aggressive accounting practices is that the man who founded the firm built it on integrity and straightforward practices. "Think straight, talk straight" was the company's motto. Andersen established the company's reputation for integrity over a hundred years ago by refusing to play numbers games for a potentially lucrative client.

Maximizing profits while being legally and ethically compliant is an important goal for a business. People in an organization need some quality or excellence to strive for.

By focusing on pushing the edge of what is legal, by looking for loopholes in the law that would help create short-term financial gain, companies have often learned that in the long term they are not actually satisfying the market, the shareholders, the suppliers, or the community generally.



SUMMARY

In this lesson, you learned that **ethics and morality** can carry **different responsibilities for organizations and individuals**. Additionally, **legal compliance is not the same as acting ethically**; what is considered "right" by society is not always enforced by the law. **Individuals and businesses should be ethical** because so much of one's reputation depends on how others regard one's actions. Goodwill is hard to measure or quantify.

Best of luck in your learning!

Source: THIS TUTORIAL HAS BEEN ADAPTED FROM (1) "BUSINESS LAW AND THE LEGAL ENVIRONMENT" VERSION 1.0 BY DON MAYER, DANIEL WARNER, GEORGE SIEDEL, AND JETHRO K. LIEBERMAN. COPYRIGHT 2011. ISBN 978-1-4533-3050-0. (2) "THE LEGAL AND ETHICAL ENVIRONMENT OF BUSINESS" VERSION 1.0 BY TERENCE LAU AND LISA JOHNSON. COPYRIGHT 2012. ISBN 978-1-4533-2750-0 (LICENSEE PRODUCT: BUSINESS LAW), BOTH SOURCES REPRINTED WITH PERMISSION FROM FLATWORLD.



TERMS TO KNOW

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Goodwill

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