Business ethics: more than just obeying the law

What does 'business ethics' mean to you? Many business decisions are made in a grey area relying not on legislation, rules or policy but on personal judgment - which can be heavily influenced by the realities of profits, costs and time constraints. Professor Gael McDonald points out that business ethics are not the same as morality, social responsibility, governance or legality.

A prominent writer in business ethics, R T De George, has emphasised the importance of distinguishing between 'ethics and business' and 'business ethics'. The former term is on shallow ground, given such frequent pronouncements of unethical activities as, for example, deception and corruption and other mercantile transgressions.

Business ethics, however, is a broader concept and encompasses a philosophical theoretical base, empirical research and strategic recommendations, particularly in the area of operational suggestions that might assist with resolving ethical conflicts in organisations.

Terms often confused with business ethics are morality, social responsibility, governance and legality.

Morality
In Death in the Afternoon, Ernest Hemingway wrote, 'What is moral is what you feel good after and what is immoral is what you feel bad after'. While cognitively correct, many would challenge how bad one really feels after immorality. Essentially, morality has to do primarily with outcomes of whether something is good or bad, while ethics examines the behaviour of right and wrong.

The 'human' factor of right or wrong reminds us that a good company, lawyer or salesperson, that is, one who is successful in outcomes, might still employ tactics that are ethically wrong. We should avoid confusing performance outcomes with action as we are concerned not only with end results but also with the means by which these results are achieved.

Most of us know what is good or bad and the 'thou shalt nots'. However, despite this existing morality, actual behaviour can deviate quite significantly from that moral base - for example, the occurrence of employee pilfering. Morality can be easily upheld but it is the ethics which are being eroded.

Social responsibility
This is described as the 'generally accepted relationships, obligations and duties between major institutions and their
stakeholders'. As the scope and number of stakeholders vary considerably, social responsibility has been used to signify legal responsibility, fiduciary duty and even charitable contributions.

What it is not – although it is often confused with it – is judicious expenditure of promotional dollars. Companies that support sporting events would be wise to reflect on whether this type of activity is appropriately placed under the heading of social responsibility in their annual reports.

More recently, the concept of social responsibility has been widened as the expectations of what is a socially responsible organisation are being explored and determined. Social responsibility is no longer viewed as just meeting stakeholder expectations, or simply patronising the arts or giving to charities.

The term has been enhanced to social responsiveness. Responsiveness is being proactive and actually anticipating the needs of stakeholders, such as database designing and manufacturing plastic beer bottles to combat the problem of broken glass in resort areas.

Governance

Probably as a result of the Cadbury Report and, more recently, the Hampel Report in the UK, governance is primarily the domain of boards of directors and senior managers and is typically concerned with issues of board composition, relationships and compliance. The restricted domain of corporate governance is also receiving greater attention with new requirements anticipated as a condition of continued stock exchange listing.

These requirements are not all eagerly awaited and the situation was described in July this year by Henry Bosch, former chairman of Australia's National Companies and Securities Commission, as 'a cold wind of fear blowing through the boardrooms'. True corporate governance is an important concern but, when many ethical dilemmas are occurring at the employee level and on the shop floor, the focus of governance at the board and senior management levels is too restricted and narrow.

Business ethics is not the same as legality. Regrettably, for many managers being ethical is staying within the boundaries of the law.

Law and ethics are closely related but not identical. For example, in December 1984, accidental leakage of methyl isocyanate gas in the Indian city of Bhopal killed some 2,500 people and injured a further 200,000, yet no laws of the state of Madhya Pradesh were violated.

Taking the view that business ethics and legality are identical ignores the subtlety of decision-making in the business environment. Many business decisions are made in a grey area – where legislation, rules or policy run out, and where personal judgement (which can be heavily influenced by the realities of profits, costs and time constraints) must be exercised.

Legislation should, therefore, be regarded as only providing the minimum level of conduct acceptable in business, whereas business ethics extends beyond that level.

It should be clear to most that business ethics is not concerned with issues such as employee theft or bribery. It is a broader term covering a range of business situations including inaccurate reporting, the inequitable treatment of employees, pricing, advertising, insider trading, the gaining of competitor information, competitor collusion, gift giving, sexual harassment, safety and environmentalism, to name but a few.

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