5 Ethical Decision Making

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Learning Outcomes

After reading this chapter, you should be able to do the following:

- Summarize traditional ethical theories in business terms and explain the value of understanding these underlying influences in ethical decision making.
- Analyze individual factors that may influence ethical decision making in business.
- Employ an ethical decision-making framework for making ethical decisions in business.

Introduction

Relevance to Business

The senior managers of a defense contractor must attend the annual ethics training program. Chris and Dave have been with the company for 10 years, and dread listening to top management discuss ethical issues and compliance requirements. The chief executive officer (CEO) takes the stage and introduces Dr. Sherman, a professor of philosophy, as the facilitator for the training. Dr. Sherman begins speaking about ethical theory and the philosophies of Aristotle, Kant, and John Stuart Mill. Chris and Dave look at each other and groan. As the most outspoken of the company managers in the training, Chris asks Dr. Sherman, "All this is very interesting, but how are these theories relevant to business?" Dr. Sherman ponders the question and smiles.

"Interesting point," he responds. "Have you ever wondered why a coworker doesn't agree with what you would consider an obviously good business decision? Is that person just being stubborn or uncooperative? Think of times when you give clear directions for a task and workers refuse to perform the task as requested. Are they insubordinate or just difficult employees?" Chris and others nod in recognition of having these experiences.

Dr. Sherman continues, "You see, people come from different ethical perspectives that can contribute to organizational conflicts or employees disobeying directives. If a manager has a basic understanding of ethical theories, he or she may be able to recognize when a coworker is looking at an issue from a different view than management. Perhaps the coworker is looking at the issue from a fairness perspective, whereas you may be looking for the solution that satisfies the most stakeholders. Instead of arguing, you may be able to guide him or her in making the right decision for your company that takes multiple ethical perspectives into consideration."

After the training, Chris agrees that learning about ethical theories may be beneficial; however, he is still not sure how to apply them. Chris says to Dave, "Everyone in my department will think I've lost it if I start talking about egoism, utilitarianism, and ethics of care when making a decision. There must be a better way to include ethical theories in business."

It is common for managers to avoid framing a decision in ethical terms (Bird & Waters, 1989). Many consider ethics in business to be intuitive—knowing the right response without conscious awareness (Faber, 1999; Haidt & Joseph, 2004). How many times has someone referred to his or her "gut instinct" to determine a course of action? Consider a purchase decision where a supplier is pressuring the sourcing team to choose its product by offering extravagant trips and gifts. Intuitively, the sourcing team may feel that it is wrong to accept the gifts. However, other personal factors may influence an ethical decision such as moral philosophies, moral development, and social needs.

Moral philosophies derive from foundational ethical theories, which provide general guidelines that apply to any moral problem. Individuals use these ethical theories to evaluate right from wrong. Derry and Green (1989) have identified over 60 ethical theories that offer similar, yet conflicting, solutions for ethical dilemmas. Individuals tend to subscribe to a dominant theory that they may not realize is influencing their moral choices. Yet some people may feel that a moral philosophy justifies unacceptable behavior in the workplace. Therefore, it is important for managers to understand the roles that ethical theory and moral development have on workers' ethical decision making.

This chapter explores the ethical decision making of individuals within organizations. The first topic describes ethical theories in business terms, as three ethical traditions that guide individuals to determine if a decision is right or wrong. The second section explores the influence of individual factors on ethical decision making in business, including the stages of moral development, social needs, and ethical decision-making styles. Finally, an ethical decision framework incorporates the three ethical traditions to allow for reasoning of a business situation.

5.1 Traditional Ethical Theories

In business, ethical theories typically relate to three dimensions of ethical behavior (Wicks, Freeman, Werhane, & Martin, 2010). The first relates to actions, focusing on *what* a company or individual is doing. The next dimension considers the agent by focusing on *who*, or the character of the company or person. The final dimension considers the *outcome*, focusing on the consequences of a decision (see Figure 5.1 for the three ethical traditions relating to behavioral dimensions). While one aspect may be more prevalent than another, a typical business decision incorporates all three ethical traditions.

Figure 5.1: Three ethical traditions relating to behavioral dimensions

In business, there tend to be three approaches to determining ethical behavior. These approaches focus on the actions that are being done, the character of the company or person, and the consequences or outcomes of the ethical decision. All three approaches are typically incorporated in a decision.

The three dimensions of a business decision relate to main traditions of moral philosophy that reflect **teleological** or **deontological** ethics for answering the question, "What is the right thing to do?" (de Colle & Werhane, 2008). Teleological derives from the Greek word *telos*, meaning purpose or goal, and *logos*, referring to science or study. Under teleological ethical theories, the rightness of a decision comes from being a good person (actor) and the results (outcome). Deontology is the science or study of duty, deriving from the Greek word *deon.* Deontological ethical theory determines the ethics of an action in relation to conformity to rules or laws ("Deontological ethics," 2014).

The three ethical traditions are complementary. Each approach reveals something different in diagnosing an ethical problem and coming up with an ethical solution. Two of the traditions, actions and outcomes, focus more on external aspects of the business decision while agents focus on internal aspects. Actions relate to regulations imposed by authorities or industry

standards, whereas outcomes refer to the effect of the decision on company stakeholders. The ethical tradition considering the character of the agent requires recognition of the company or individual values. Exploring the underlying moral philosophies of each ethical tradition allows managers to recognize their own ethical style and differences among the ethical decision-making styles of their employees.

Actions

The ethical tradition that focuses on whether an action is acceptable is often the first step in ethical decision making. People refer to standards that guide whether a behavior is good or bad, or right or wrong. Ethical traditions focusing on action represent a deontological approach to business ethics. For example, if an employee lies about being sick to cover for an absence, a deontological approach would consider the action unethical as it violates a company policy or business standard. An action-oriented ethical approach does not consider intent or outcome. Other terms for action-oriented ethics include rules-based, principle-based, and Kantian. As Chapter 4 stressed, laws and regulations impose a minimum standard of business actions. However, other rules and principles influence ethical decision making within an organization.

Determinations of which behaviors are acceptable derive from religious and cultural traditions. Nearly every religion has principles of right or wrong, or their own version of the Golden Rule of "Do unto others as you would have others do unto you" (Burton & Goldsby, 2005). Research in business ethics has shown that religious beliefs influence ethical behavior, including the Ten Commandments of Judeo-Christians (Van Buren & Greenwood, 2013), the rules for business and organizational conduct contained within the Qur'an and the Hadith of Islam (Sloane-White, 2011), and the guidance of morals and rules of behavior in Hindu scriptures (Richardson, Sinha, & Yaapar, 2013). All companies should understand the religious foundations of ethical behavior within diverse workforces.

Critics of deontological approaches to ethics find that decisions based on rules are too rigid, too simplistic, or too reliant on vague principles (Smith & Dubbink, 2011). The main target of criticism is on the **categorical imperative** of the 18th century German philosopher Immanuel Kant, who espoused unconditional or absolute moral philosophies. The categorical imperative states, "Act only according to that maxim whereby you can, at the same time, will that it should become a universal law" (Kant, 1785/1959, p. 39). For business, this means that decisions must be suitable for all parties faced with the same dilemma. The challenge is providing employees with the tools to interpret and apply universal ethical principles.

What are the standards that guide acceptable behavior in a business organization? A minimum standard for ethical behavior is compliance with laws and regulations. The company can instill a sense of duty by encouraging business decisions to be in accordance with the company mission. Formal company codes of conduct give guidelines for determining the type of behavior that is acceptable within an organization. Industry or professional codes of conduct provide employees with ethical standards for specific business activities. Organizational standards can augment individual moral principles to encourage ethical behaviors in the workplace.

Agents

A branch of ethical thought focuses on the character of the agent (person or company) making the decision. The premise of the ethical tradition is two-fold: 1) a belief that people of good character act rightly and ethically, and 2) following rules is secondary to preserving relationships. What is good character? According to Aristotle, a person of good character develops virtues such as fairness, trustworthiness, honesty, and humility that help identify the right thing to do in any situation (de Colle & Werhane, 2008). Ethical virtues combined with practical wisdom lead to moral actions. Ethical philosophies that focus on the person and relationships are virtue ethics and ethics of care.

Virtue ethics consider the moral character of individuals in making good decisions and pull from Aristotelian, Buddhist, and Confucian traditions (Provis, 2010; White & Taft, 2004). In ethical decision making, a virtue ethical approach draws intuitively on an agent's experience and character. A good person chooses to acquire a virtue, whereas the alternative is a vice that leads to corruption, fraud, and misconduct. Being a virtuous person entails living in moderation, according to Aristotle's "Golden Mean" (see Table 5.1) or in Buddhism, the "Middle Way." An expression of every virtuous trait can be either too weak or too strong. For example, a manager may be too honest or tactless by telling an employee, "Your work is sloppy and terrible." However, if the same manager tells a low-performing employee that his or her work is great, then the manager is being dishonest. The goal is to find the happy medium between the two extremes. People tend to want to use the golden mean to assess correctness of an action; however, the focus of virtue ethics is on the person. Remember to ask, "What would an honest person do in this situation?"

Table 5.1: The golden mean of virtues

Action or Feeling	Deficiency "Too Weak"	Mean "Golden Mean"	Excess "Too Strong"
Fear	Cowardice	Courage	Rashness
Pleasure and Pain	Insensibility	Temperance	Self-indulgence
Honor	Dishonesty	Honesty	Tactless
Empathy	Cold	Caring	Smothering
Getting and Spending	Pettiness/Stinginess	Generosity	Wastefulness
Anger	Lack of spirit	Patience/good temper	Irascibility (easily provoked anger)
Self-expression	Understatement/mock modesty	Truthfulness	Boastfulness
Conversation	Dullness	Wittiness	Frivolous
Social Conduct	Surliness	Friendliness	Flattery
Shame	Shamelessness	Modesty	Shyness

Source: Aristotle. (1953). The ethics of Aristotle, *translated by J.A.K. Thomson. England: Penguin Books. Adapted from Table of Virtues and Vices, p. 104.*

As with moral principles, a person's virtues derive from religious and spiritual traditions. Dahlsgaard, Peterson, and Seligman (2005) identify six core virtues expressed explicitly or thematically in the world religions, which include courage, justice, humanity, temperance, wisdom, and transcendence (see Table 5.2 for descriptions of each). Thomas Aquinas (1225–1274) describes seven heavenly virtues and seven deadly sins that build on Greek philosophy. The virtues include faith, hope, charity (love), fortitude (courage), justice, temperance, and prudence. The seven deadly sins are pride (vanity), envy, gluttony, lust, anger (wrath), greed (avarice, covetousness), and sloth. Confucianism encourages the virtues of patience, sincerity, obedience, and knowledge. Buddhism edifies compassion, forgiveness, honesty, generosity, and equanimity.

Table 5.2: Core virtues

Virtue	Description
Courage	Emotional strengths that involve the exercise of will to accomplish goals in the face of opposition, external or internal; examples include bravery, perseverance, and authenticity (honesty)
Justice	Civic strengths that underlie healthy community life; examples include fairness, leadership, and citizenship or teamwork
Humanity	Interpersonal strengths that involve tending and befriending others; examples include love and kindness
Temperance	Strengths that protect against excess; examples include forgiveness, humility, prudence, and self-control
Wisdom	Cognitive strengths that entail the acquisition and use of knowledge; examples include creativity, curiosity, judgment, and perspective (providing counsel to others)
Transcendence	Strengths that forge connections to the larger universe and thereby provide meaning; examples include gratitude, hope, and spirituality

Source: Dahlsgaard, K., Peterson, C., & Seligman, M.E.P. (2005). Shared virtue: The convergence of valued human strengths across culture and history. Review of General Psychology, 9*(3), 203–213, p. 205.*

The **ethics of care** is a theory encompassing social virtues that focuses on character traits such as sympathy, compassion, and friendship (French & Weis, 2000). An ethics of care seeks to discover how people "sustain fragile networks of relations that allow people to grow and prosper, developing trust, respect, and responsibility for each other" (Gabriel, 2009, p. 383). A benefit of the ethics of care is its flexibility in allowing for responsiveness to an ethical dilemma. This theory can create a business environment emphasizing connection, cooperation, and the well-being of others. The attention that ethics of care has on maintaining relationships can alleviate tensions among stakeholders during a crisis (Linsley & Slack, 2013). Consider how the trust that employees and shareholders have toward company management encourages resilience during difficult economic times of declining sales.

A disadvantage of an ethics of care is that people with this orientation believe that tailoring solutions to the situation is normal. They are unlikely to view rules as deterrents, instead following a more instinctive method of determining if an action is correct. More women than men adopt an ethics of care philosophy, yet it is not a feminist theory (Borgerson, 2007).

Managers with a caring orientation are sensitive to the consequences of a decision on individuals and consider consensus an important part of getting support from all participants.

The aim of virtue ethics and ethics of care is to become an improved person who is more likely to make better decisions. Companies can develop managers and employees with good character by creating a values-based ethics program with clear corporate values (Hartman, 1998). For example, the values-based ethics program of United Launch Alliance promotes employees to base their behaviors on the organization's core values (see Chapter 1). By stating its values, companies are able to attract employees with virtues that align with company values. If a company encourages a virtue like honesty, then employees considering whether to tell a client of delayed shipments would more likely be truthful.

Outcomes

The third ethical tradition focuses on the consequences of a decision or results-oriented ethics. The bases of teleological theories in this ethical tradition seek to do no harm by acting in a manner that produces the best outcome. Often people adopting a results-oriented approach will say, "The ends justify the means," emphasizing not the how or who, but the outcome of an action. Many results-oriented approaches center on the relationship between ethics and self-interest of an individual or group. Others focus on the fairness of the outcome on stakeholders. **Consequentialism** includes ethical philosophies that presume that the value of an action derives from the value of its outcomes, such as egoism, utilitarianism, and distributive justice.

An egoistic orientation centers on making a decision that provides for the greatest good for oneself. **Ethical egoism** considers an action to be morally right when it maximizes one's self-interest (Shaver, 2010). The role of self-interest in business ethics links to some extent to Adam Smith's theory that society benefits when individuals act in their own self-interest (James & Rassekh, 2000). Does this mean that a manager can make decisions based on what is best for him or her regardless of harming others? Some interpretations of Adam Smith incorrectly suggest that self-interest is devoid of ethical considerations. The feeling among many ethicists is that egoism is synonymous with selfishness and greed (Burnes & By, 2012).

In business, the influence of egoism on ethical decision making has two implications: employees need to be cognizant of self-interest to avoid taking undue advantage of situations while harming others; and companies should have controls in place, where possible, to prevent misconduct. Examples of unethical uses of egoism include a CEO selling company stock before scandals become public or a salesperson pressuring a client for an order to make quotas and increase commission. Second, the features of self-interest and self-preservation in egoism can prevent misconduct when combined with principles of honesty and justice. For example, consider a salesperson told to lie to a customer about product safety. Lying could harm the customer and thereby harm the salesperson's long-term sales. In this case, egoism can deter misconduct by pointing out the harmful consequences of the actions (Woiceshyn, 2011).

Making decisions in the best interest of the individual can evolve into decisions that result in the greatest good for the group. **Tribalism** refers to a predisposition to act in union with others, including in-group cooperation and out-group competition (Tullberg, 2006). Creating a culture where teams work together and protect the group's viability within the firm can contribute to high performance. Where tribalism creates problems in the workplace is when

groups become too competitive with other groups within the company. Consider departments where a newcomer has a difficult time assimilating and is always considered an outsider or newcomer. To overcome the negative effects of tribalism within Southwest Airlines Co., chairman Herb Kelleher prompted employees to work across groups, stating:

> Our greatest advantage is our people and the unmatched customer service and teamwork we bring to any challenge. But make no mistake about it. If we fall into the trap of internal tribalism, with one station or city competing for resources against another, or with the reservations team sparring with marketing, or any other of the many internal points of potential conflict, we will lose our collective focus and can easily join the dozens of airlines no longer in business. (As quoted in McGee-Cooper, 2005, p. 13)

Broadening beyond the individual or group, **utilitarianism** is the philosophy that an ethical decision provides the greatest good for the greatest number. Andrew Gustafson (2013) describes utilitarianism as providing "a vision of ethical behavior that holds the common interests of humanity as of utmost importance when making a moral decision" (p. 326). A utilitarian approach relies on a cost/benefit analysis based on the principle of utility, or greatest happiness principle, which determines the rightness of acts (or rules of action) by their effect on total happiness. Classical utilitarian ethical reasoning originates from British philosophers Jeremy Bentham (1748–1832) and John Stuart Mill (1806–1873). Bentham promoted giving numerical values to various consequences of an action and mathematically assessing whether the good outweighs the bad, a practice called **utilitarian calculus**.

David Koepsell (2010) promotes the use of a type of utilitarian calculus for scientists deciding whether to disseminate potentially deadly or dangerous technologies. Consider breakthrough research that would double the effectiveness of a nuclear bomb or the development of a virus that resists all known treatments. What responsibility would the research scientist have if an organization decided to use these innovative technologies to eradicate populations? Koepsell posits that scientists must consider the consequences of their research by assessing the risks for catastrophic outcomes (R) against the likelihood of others discovering the technology (L) and the potential benefit from scientific investigations (P). When the sum of L + P is greater than R, a scientist can make a utilitarian case for pursuing the research. The potential good outweighs the risk. Managers of pharmaceutical and technology firms deal with similar issues regularly, by determining whether a new product or service benefits a greater number of people than those who could be harmed.

Ethicists have reservations of the utilitarian approach for making ethical decisions in business. Gustafson (2013) identifies five common criticisms in business ethics research for utilizing utilitarianism:

1. The Convenience Objection: utilitarianism undermines principles such as justice and truth telling, which would make the keeping of contracts a matter of convenience at best.
2. The Supererogatory Objection: utilitarianism leads to irrational and futile conclusions which are unworkable and untenable in the business place because it asks too much of the decision makers.
3. The Majority-bias Objection: utilitarianism is biased against the minority viewpoint and so is unnecessarily blind both to the dignity of individuals and to innovation from dissenters.

4. The Motivation Objection: utilitarianism fails to provide moral motivation for this social concern it requires.
5. The Calculation Objection: utilitarianism is flawed insofar as it cannot provide an adequate calculus system to do the utilitarian calculus, leaving it impotent to assist in making ethical business decisions. (p. 335)

Critics of utilitarianism stress the difficulty in determining the greatest good, as it requires a quantification of pleasure and pain to determine the optimal alternative. Other criticisms consider that a utilitarian approach encourages outcomes that ignore justice principles and are unfair to minority groups. Audi (2007) suggests that proponents of utilitarianism consider the distribution of the outcomes among as many groups or individuals for the following reasons:

1. People tend to resent unequal distributions (at least) of certain common kinds;
2. Resentment is either painful or tends to cause pain;
3. People tend to accept equal distributions;
4. This acceptance, if not pleasurable, at least tends to reduce pain; and
5. Wide distribution is desirable given a hedonic analogue of the declining marginal utility of money. (p. 603)

Distributive justice relates to the fairness of outcomes, such as the allocation of pay, dealer sales area, and pricing in a multi-tiered distribution channel (Klein, 2008; Umphress, Ren, Bingham, & Gogus, 2009). The approach emphasizes proportionate equality. A definition for distributive justice in business is the obligation to distribute benefits and costs among all affected by an action or policy. Consider a manager with two employees wanting the same week for vacation. The manager uses a distributive justice approach when trying to organize vacation schedule requests so that employees have equal chances for getting their first choices. Employees are more likely to describe a violation of distributive justice as unfair rather than unjust (Dempsey, 1949).

A results-oriented ethics tradition requires stakeholder analysis to identify the outcomes of a decision on each company stakeholder (Audi, 2007). Particularly in marketing decisions, the harm on customers, suppliers, and the community should be a consideration (Ferrell & Ferrell, 2008; Smith, Palazzo, & Bhattacharya, 2010). In 2014, CVS Pharmacy, the largest pharmacy chain in the United States, announced it was removing cigarettes and other tobacco products from all 7,600 stores, amounting to a loss of $2 million in revenue (Herper, 2014). The decision considered the company stakeholders and the potential harm or benefit of offering tobacco products where customers sought health advice. Tobacco companies and smokers may experience negative effects from the decision, having to seek other outlets for tobacco products for sale and purchase. According to Herper (2014), CVS works "closely with hospitals, doctors' networks, and . . . Accountable Care Organizations" (p. 8). CVS expects that additional revenue through a greater relationship with healthcare professionals and insurance providers will more than compensate for lost tobacco sales. News coverage portrays CVS as an ethical business, with much focus on the cost-benefit analysis of the decision (Martin & Esterl, 2014; Park, 2014).

What other ethical traditions contributed to the decision to eliminate tobacco sales? All three types of ethical philosophies could guide CVS management in making the right decision. See *Consider: What Is Your Ethical Style?* to discover which ethical tradition is most dominant for you or your coworkers. In addition to ethical philosophies, other individual factors may influence ethical decision making, possibly impeding the company from taking bold and courageous actions reflective of a responsible business.

Consider: What Is Your Ethical Style?

Survey of Ethical Theoretic Aptitudes

Instructions: Each of the following statements can be completed in two ways. Think about each alternative and circle the one that *best* represents your feelings.

1. A person's actions should be described in terms of being
   a. good or bad.
   b. right or wrong.
2. When making an ethical decision, one should pay attention to
   a. one's conscience.
   b. others' needs, wants, and desires.
3. Solutions to ethical problems are usually
   a. some shade of gray.
   b. black and white.
4. It is of more value to societies to
   a. follow stable traditions and maintain a distinctive identity.
   b. be responsive and adapt to new conditions as the world changes.
5. When thinking through ethical problems, I prefer to
   a. develop practical, workable alternatives.
   b. make reasonable distinctions and clarifications.
6. When people disagree over ethical matters, I strive for
   a. some point(s) of agreement.
   b. workable compromises.
7. Uttering a falsehood is wrong because
   a. depending on the results, it can lead to further problems.
   b. it wouldn't be right for anyone to lie.
8. Thinking of occupations, I would rather be a
   a. wise judge, applying the law with fairness and impartiality.
   b. benevolent legislator, seeking an improved life for all.
9. I would rather be known as a person who
   a. has accomplished a lot and achieved much.
   b. has integrity and is a person of principle.
10. The aim of science should be
    a. to discover truth.
    b. to solve existing problems.
11. Whether a person is a liar is
    a. a matter of degree.
    b. a question of kind.
12. A nation should pay more attention to its
    a. heritage, its roots.
    b. its future, its potential.
13. It is more important to be
    a. happy.
    b. worthy.

(continued)

Consider: What Is Your Ethical Style? *(continued)*

14. Unethical behavior is best described as
    a. a violation of a principle of law.
    b. causing some degree of harm.
15. The purpose of government should be
    a. to promote the best possible life for its citizens.
    b. to secure justice and fair treatment.

How to Score this Test

Count the odd-numbered questions to which you responded A

Count the even-numbered questions to which you responded B

Add the two numbers together, and subtract 8 from the total

Scoring:

+7 +6 +5 "fully utilitarian"
+4 +3 +2 "moderate utilitarian"
+1 0 −1 "neutral"
−2 −3 −4 "moderate deontologist"
−5 −6 −7 "fully deontologist"

This diagnostic test has been used for many years in many settings, both in the academic world and in the private and public sectors. It is designed to ascertain an individual's inclination to approach ethical issues from a deontological or a utilitarian perspective. There are no wrong answers and no unethical scores. About 90% of respondents score in the +5 to −5 range.

Source: Reproduced from F. Neil Brady's Ethical Managing: Rules and Results *(1990); Macmillan Publishing Company, New York, New York: pages 211–213.*

5.2 Individual Factors in Ethical Decision Making

People deal with ethical issues differently: some depend on the law, social norms, and relationships; some focus on self-interest for themselves or the group; and some seek universal principles that guide moral behavior. Ethical decision making is not easy. Evaluating and choosing an ethical action requires **moral reasoning**, the process in which individuals define whether an action is morally right. Even with seemingly clear guidelines for ethical conduct, professionals can encounter situations where acting ethically is ambiguous or difficult. Consider a sports example:

> You are a basketball referee in the final moments of a big game. The home team is up by one point as the clock ticks away and the crowd begins to cheer. Just then, an opposing player drives toward the net. A defender stops him. A skirmish ensues—a push here, a shove there—and the ball is knocked loose. Players are sprawled across the floor. What would you do? (Chapman, Gentile, & Rosenfeld, 2011, para. 1)

Most referees would do nothing, even if, according to the rules, a foul should be the correct call. Why would someone do nothing when his or her profession obliges enforcement of rules? With no conscious thought, the referees are making the moral decision to refrain from calling certain fouls based on experience and individual social needs.

Gentile (2010a) explains why good people sometimes do not act in line with their ethical values by pulling from a taxonomy from Dees and Cramton (1991). To address why negotiators may appear amoral, they introduce a "mutual trust perspective where moral obligations are grounded in a sense of trust that others will abide by the same rules" (Dees & Cramton, 1991, p. 135). The expectation that not all people will act ethically creates three decision-making styles:

- **Idealists**—people who act on their moral ideals, no matter what.
- **Pragmatists**—people who attempt to act in the service of their own material welfare as well as upon their moral ideas.
- **Opportunists**—people driven exclusively by their own material welfare.

According to the typology, idealists and opportunists are extreme positions. Opportunists seek an advantage regardless of others' moral behavior, whereas idealists behave according to moral ideals regardless of the costs to themselves. According to the situation, most people can relate to one extreme or the other. Consider a time when a coworker argued adamantly for acting ethically. For some issues, maintaining an idealistic stance may be easy. Other times, the same coworker could appear to be an opportunist in making a decision solely in self-interest on a different issue. Gentile (2010a) found that business practitioners usually self-identify as pragmatists and act on moral values only if such behavior does not place themselves at a "systematic disadvantage" (p. 109). Pragmatists will restrain from opportunistic behavior as long as they trust others will behave appropriately.

How do these ethical decision styles relate to the basketball referee's decision of not calling the foul? Making the morally correct call so close to the end of the game could place the referee at a disadvantage should the players, coaches, and fans object. Gentile would consider the basketball referee as taking a pragmatic approach to ethical decision making. The following sections explore the factors that influence ethical decision making, including the maturity of moral reasoning, importance of social needs, and perception of ethical relativism.

Cognitive Development

Moral reasoning involves transforming values, beliefs, and principles into action. People develop moral reasoning gradually, becoming more sophisticated at reasoning through ethical dilemmas over time. Kohlberg's **stages of moral development** suggest that individuals naturally progress through a series of definite and describable stages of moral reasoning (Kohlberg & Hersh, 1977). He identifies three levels of moral development that relate to preconventional (self-centered), conventional (conformity), and postconventional (principled). The progression through the levels involves six stages moving from a personal focus, social focus, and a universal principled focus on justice and rights. Table 5.3 outlines the key points for each stage of Kohlberg's model.

Table 5.3: Six stages of moral development according to Kohlberg

Stage	What Is Considered to Be Right
Level One—Preconventional (self-centered)	
Stage 1: The punishment-and-obedience orientation.	Sticking to rules to avoid physical punishment. Obedience for its own sake.
Stage 2: The instrumental-relativist orientation.	Following rules only when it is in one's immediate interest. Right is an equal exchange, a fair deal.
Level Two—Conventional (conformity)	
Stage 3: The interpersonal concordance or "good boy–nice girl" orientation	Stereotyped "good" behavior. Living up to what is expected by people close to you.
Stage 4: The "law and order" orientation.	Fulfilling duties and obligations to which you have agreed. Upholding laws except in extreme cases where they conflict with fixed social duties. Contributing to the society, group.
Level Three—Postconventional (principled)	
Stage 5: The social-contract and legalistic orientation	Being aware that people hold a variety of values; that rules are relative to the group. Upholding rules because they are the social contract, emphasizing that they may change. Upholding nonrelative values and rights regardless of majority opinion.
Stage 6: The universal-ethical-principle orientation.	Following self-chosen ethical principles. When laws violate these principles, act in accord with principles.

Source: Adapted from Kohlberg, L., & Hersh, R.H. (1977). Moral development: A review of the theory. Theory Into Practice, 16*(2), 53–59; Trevino, L.K. (1986). Ethical decision making in organizations: A person-situation interactionist model.* Academy of Management Review, 11*(3), 601–617.*

Businesses recognize the role of the workforce's moral development on ethical decision making in the workplace (Snell, 2000). At the first level, individuals recognize cultural rules of right or wrong, but respond mainly to outside threats or opportunities. In business, employees in this level's first stage of punishment-and-obedience orientation act in fear of punishment for not complying with imposed rules, codes, and commands of management. However, individuals in the second stage engage in actions that satisfy their own needs. In business, employees in the second stage of moral development may follow, bend, or break the company rules according to self-interest.

The second level of moral development stresses conformity to socially defined standards and maintaining the expectations of the individual's family, group, or nation. In business, employees at this level are loyal to their profession or organization and protect the rules of each institution. Employees look for approval in stage three of this level, and strive to appear helpful and trustworthy to coworkers and management. Those workers in the fourth cognitive development stage respect the rules and codes of the organization and expect the same from management.

The final two stages of moral development represent what Kohlberg defines as a postconventional, autonomous, and principled level. Individuals at this level look beyond the group to define and act on personal moral values and principles that promote well-being for society. Employees

in the fifth stage, the social contract orientation, focus on stewardship, social responsibility, and concern for just treatment. They respect the moral rights of other groups and seek to reduce the organization's negative impact on social and environmental concerns. Employees in the final stage of moral development have self-chosen ethical principles that guide behaviors relating to justice, human rights, and respect for the dignity of human beings as individuals. Business organizations should encourage principled ethical reasoning, but should ensure that management's principles align with organizational principles. Employees at this stage are more likely to be inquisitive of moral traditions in the organization, questioning the ethics of practices such as the use of child labor or inadequate waste disposal. Companies should be open to critical discussion and willing to implement new policies as warranted.

How can individuals within an organization tell where they or their coworkers are in the stages of moral development? See *Reputation Best: Bill Daniels's Principle-Based Ethics* for an example of a business leader demonstrating principled moral reasoning. Scholars in the social sciences use scenarios primarily to assess the predominant stage for students and employees. Their findings shed insight on the antecedents, progression, and outcomes of moral cognitive development for most individuals:

- People are generally consistent in their level of moral judgment that reflects one dominant stage, although may occasionally be at one stage lower or higher than their dominant stage.
- Progression to higher stages occurs quickly upon exposure to an environment that stimulates reasoning at a higher level, such as organizations with an ethical climate and training in ethical reasoning (Weber & Green, 1991; Weber & Wasieleski, 2013).
- Under all conditions except extreme trauma, movement between stages is always forward, never skipping stages.
- People tend to function at the highest stage of moral development attained, while maintaining an understanding of the lower stages.
- Females may achieve higher stages of moral reasoning than males based on some studies, whereas others find no significant difference between the genders (Kracher & Marble, 2008; Nguyen, Basuray, Smith, Kopka, & McCulloh, 2008).
- Ethical decision making and intended ethical behavior generally increase as individuals reach higher stages of moral reasoning (Weber & Green, 1991).

Business Best: Bill Daniels's Principle-Based Ethics

Bill Daniels was a business leader who followed his principles and values throughout his career. Most know of Bill Daniels as a pioneer in cable television, starting with his first cable business in Casper, Wyoming in 1953. Bill went on to own and operate hundreds of cable TV systems across the country. He founded Daniels & Associates, a nationally recognized provider of investment banking services to media and technology companies. His leadership helped bring numerous high-tech and communications companies to Colorado.

Bill attributed adoption of ethical principles to his experiences with sports coaches while attending high school at the New Mexico Military Institute. He strove to build a reputation of integrity. The following story demonstrates Bill's principle-based moral reasoning in action.

(continued)

Business Best: Bill Daniels's Principle-Based Ethics *(continued)*

In 1952, Bill opened a small insurance agency in Casper, Wyoming, and struggled to make it over the next three years. Then in 1955, one of the insurance companies he represented went broke, leaving the policyholders high and dry. Bill stepped in for his client, feeling that he had represented the terms and his integrity was at stake. As he explained:

"Two weeks after the bankruptcy, Burlington Railroad sued one of my clients—to whom I had sold a liability policy—for $12,500. A judgment was entered against my client for $11,000. I made a deal with Burlington Railroad to pay this judgment off at $500 per month, over a 22-month period. I did not have to do this, but I had a strong conviction that I owed this to my insured who had placed his faith in my handling of his insurance business. During this time, the $500 payment was more than I was making per month. I managed, however, through borrowing and juggling of finances, to do this." (*The Life & Legacy of Bill Daniels*, 2012, p. 118)

Questions to Consider

1. From the story of the insurance company, which ethical tradition best describes Bill's decision to pay the client from his own funds? Did he approach the decision using a rules-based, virtue or relationship-based, or outcome-based approach, or a combination of approaches?
2. Bill credits sports coaches for progression to higher stages of moral development. What other factors could motivate someone to develop higher levels of moral reasoning?
3. Can you think of a person who demonstrates principle-based ethics? How do his or her actions reflect a highly developed moral reasoning?

Whereas rules and values may vary across cultures, the nature of moral reasoning is universal as a developmental sequence (Kohlberg & Hersh, 1977). This is good news for companies struggling with diverse cultural values of their workforce. A well-designed ethics and compliance program will address the needs of workers at all stages of ethical reasoning, balancing rules and punishment with policies encouraging loyalty and the well-being of all stakeholders (Trevino, Weaver, Gibson, & Toffler, 1999; Weaver, 2001). Companies may introduce training to develop the capability of employees to progress toward principle-based reasoning. Managers who understand how individuals engage in moral reasoning will be more effective in encouraging ethical behavior in their workforce.

Social Needs

Identifying the motivators of employees can further management's efforts to encourage ethical decision making. Consider a situation where James, the manager of a small office, publicly

recognized Edith, an employee who reported a coworker for stealing from petty cash, which resulted in that coworker's termination of employment. To reward Edith, James called an employee meeting to announce her ethical behavior and present her with a large monetary award. Rather than gladly accepting the reward, Edith became crestfallen and embarrassed. What James did not realize is that Edith's motivation to do the right thing was in direct conflict with her social need to be a team player, not wanting to stand out as a whistle-blower on her coworkers.

There are three social needs that may motivate an individual in an ethical decision-making situation—achievement, affiliation, and power. A **need for achievement** relates to an individual's motivation to exceed performance. The **need for affiliation** refers to an individual's inclination to work with others in the organization. The social **need for power** involves the desire to control and influence others. Harvard professor David McClelland (1961) linked an individual's drive for achievement, affiliation, and power to workplace behaviors that can be beneficial to organizational success, yet can also lead to unethical behaviors (Spreier, Fontaine, & Malloy, 2006). Table 5.4 provides an overview of the three social needs and potential influences on ethical decision making. Individuals with a high achievement need tend to focus on results, whereas a high affiliation need stresses relationships. McClelland recognized that power can be personalized—using power for self-gain, or socialized—using power to assist others (McClelland, 1961).

Table 5.4: Influence of social needs on ethical decision making

Social Need	Achievement	Affiliation	Power
Characteristics	Improves personal performance Prefers well-defined goals Seeks performance feedback Self-confident	Prefers working with others Maintains close, friendly relationships Fear of rejection	Influences and controls others Seeks positions of authority Seeks prestige objects Influences and controls others Seeks positions of authority Seeks prestige objects
Promotes ethical decisions	Thinks of long-term impact on advancement Takes carefully calculated risks Assumes personal responsibility for performance Innovativeness	Encourages cooperation More likely to be fair, altruistic, friendly, generous, caring, and kind to others	Gives help, advice or support to others
Impedes ethical decisions	Cuts corners Focuses on goals and outcomes rather than people	Avoids sharing bad news Goes along with the group; conformity	Is coercive or ruthless Acts to enhance visibility and self-interest

Source: Adapted from (Langan-Fox & Grant, 2007; McCleland, 1961; Spreier et al., 2006.

The strength of social motivations varies by national culture. People develop needs for achievement, affiliation, and power through their culture and life experiences. Van Emmerik, Gardner, Wendt, and Fischer (2010) have found a strong relationship among national cultural dimensions of performance orientation, human orientation, and power distance with the respective social needs for achievement, affiliation, and power of 17,538 managers from 24 countries. They encouraged global employers to seek workers whose social needs are compatible with the organization's work environment. For example, employees motivated by achievement thrive on challenging projects and rewards based on merit instead of seniority.

Li and Murphy (2012) explored whether a higher achievement need influences sales force engagement in unethical sales practices. They surveyed 948 business-to-business salespeople of a multinational company's sales force in Canada, Mexico, and the United States to identify factors for activities such as getting customers to make forward purchases, overemphasizing contest-targeted products, making occasional exaggerated claims of targeted offerings, setting aside other responsibilities, accepting credit risks, and reducing helping and sharing among salespeople. Their sample of salespeople with high achievement need in the United States and Mexico were more likely to engage in all unethical sales behavior than colleagues with lower achievement need. However, the study showed that in Canada the level of achievement need does not influence unethical behaviors of salespeople. An examination of the social needs within a workforce may lead managers to identify potential areas of conflict and address diverse reactions to a situation.

Ethical Relativism

Some individuals resist making ethical decisions using universal principles because of a belief that more than one truth exists for some moral issues (Tännsjö, 2007). Moral relativism refers to an expectation that ethical choices can vary based on class, race, gender, age, religion, culture of origin, or situation. Individuals with high relativism feel that one cannot make claims of right or wrong. On the other extreme, individuals may adopt **moral idealism**, expecting that the right action is attainable in all situations.

Forsyth (1980) examined how relativism and idealism influence ethical perspectives of individuals by developing a 20-item ethical position questionnaire. Ten of the items refer to idealism, with question such as: a) "The existence of potential harm to others is always wrong, irrespective of the benefits to be gained"; and b) "One should never psychologically or physically harm another person." Questions relating to relativism include: a) "What is ethical varies from one situation and society to another," and b) "Moral standards should be seen as being individualistic; what one person considers being moral may be judged to be immoral by another person" (p. 178). Four ethical positions emerged from the 1980 study and subsequent research (Forsyth, 1981, 1992; Forsyth & Pope, 1984). The four positions are:

1. Exceptionism (low relativism, low idealism): Individuals' actions should be consistent with moral rules, but pragmatism should allow exceptions to such rules.
2. Absolutism (low relativism, high idealism): Individuals' actions are always consistent with moral rules because such actions produce the best consequences for the most people.

3. Subjectivism (high relativism, low idealism): Personal values guide their moral decisions; any other consideration, such as universal moral principles, is irrelevant.
4. Situationism (high relativism, high idealism): Individuals choose actions that produce the best possible effects for all people concerned, regardless of deviating from rules or moral norms.

To examine the cultural influences on relativism and idealism, Forsyth, O'Boyle, and McDaniel (2008) analyzed results from 139 studies with over 30,000 respondents from 29 different countries. Table 5.5 summarizes the dominant ethical position by country included in the study. Most of the developed nations in the study have exceptionist ethical positions, with low idealism and low relativism, while Britain and parts of the United States have the extreme position with high idealism and high relativism. The Middle East and Asian countries vary substantially among highly idealistic positions of situationism and absolutism. Only Asian countries fall into the high relativistic subjective position. Two countries in the study straddle ethical positions: Ireland is highly relativistic, yet neutral in idealism, while Ukraine is highly idealistic, yet neutral in relativism. The findings highlight variances of idealism and relativism across regions of the world that align with Hofstede's (1983) cultural dimensions such as individualism and avoidance of uncertainty.

Table 5.5: Locations of nations on the two dimensions of idealism and relativism

	High Relativism	**Low Relativism**
High Idealism	**Situationism** Britain Brunei India Lebanon Malaysia Spain Turkey United Arab Emirates (UAE) Western United States	**Absolutism** Egypt Korea Poland Saudi Arabia South Africa
Low Idealism	**Subjectivism** China Hong Kong Japan Thailand	**Exceptionism** Australia Austria Belgium Canada East/Central United States Israel New Zealand Russia

Source: Summary of study done by Forsyth, O'Boyle, and McDaniel (2008).

Ethical decision making is complex, incorporating ethical traditions, moral development, social needs, and relativistic considerations (Craft, 2013). Cultural differences influence moral philosophies and ethical positions, increasing potential for conflicts within a global organization. Many individuals are unaware of the factors influencing their moral actions. Making an ethical decision requires a process that incorporates multiple ethical approaches (Treviño, 1986; Wicks et al., 2010; Woiceshyn, 2011).

5.3 Making an Ethical Decision

Ethical dilemmas occur when a situation requires one to choose among alternatives that create a values conflict among stakeholders. By definition, a dilemma is a problem involving a difficult choice among two or more equally conclusive alternatives ("Dilemma," 2014). There may not be a correct answer to an ethical dilemma. An **ethical decision-making model** is a resource or tool that facilitates the ethical analysis of an action or a decision in an orderly, systematic manner (Kotalik et al., 2014).

Many ethical decision-making models provide a sequence of steps that include gathering more information, identifying alternatives, applying ethical filters, choosing an optimal option, and implementation (Baird, 2012; Hartman & DesJardins, 2008). Models vary in the number of steps to reason through an ethical dilemma, from five or six overview steps to detailed 10- or 12-step processes (Larimer, 2009; Pekel & Wallace, 2006). Most models provide a checklist or framework to analyze the alternatives. Some models focus more on application of moral philosophies rather than ethical decision making within an organizational context (Audi, 2009; Murphy, Laczniak, Bowie, & Klein, 2005). The Ethics Resource Center (2009a) encourages companies to adopt an ethical filter with a strong focus on the organization in a six-step "*PLUS Decision Making Model*." The cue word PLUS references:

P = Policies: Is it consistent with my organization's policies, procedures, and guidelines?
L = Legal: Is it acceptable under the applicable laws and regulations?
U = Universal: Does it conform to the universal principles/values my organization has adopted?
S = Self: Does it satisfy my personal definition of right, good, and fair? (Ethics Resource Center, 2009a, para. 5)

An ethical decision-making model should allow for analysis of ethical issues in routine business situations that all workers may readily apply. See *Consider: Ethical Decision-Making Steps* for a five-step process for choosing actions that take into consideration individual and organizational ethical frameworks.

Consider: Ethical Decision-Making Steps

Step 1: Identify the Issue

a. What are the key facts in this situation?
   1) What do you *know for sure?*
   2) What is not known?
c. What are the personal values of the decision maker and the organization's values?
d. What ethical principles are most relevant to this situation?
e. What are the rules or laws relevant to this situation?

Step 2: Identify the Stakeholders

a. List the major stakeholders that have a stake in the outcome of the situation.
b. What does each stakeholder value?
c. What are the desired outcomes of this situation for each stakeholder?

(continued)

Consider: Ethical Decision-Making Steps *(continued)*

Step 3: Analyze Alternatives

a. Brainstorm possible alternatives for this situation.
b. Determine the possible consequences of each alternative for the key stakeholders.
c. Assess each alternative on actions, actor, and outcome perspectives.

Step 4: Take Action

a. What decision or action is consistent with principles, values, and has the best outcome?
b. What are possible repercussions from the action?

Step 5: Monitor Outcome

a. Will your recommendation stand the test of time?
b. Is your recommendation a model of "right" behavior?

Each step of the model involves further reflection to 1) identify the issue, 2) identify the stakeholders, 3) analyze alternatives, 4) take action, and 5) monitor outcomes. For an example of how to apply the ethical decision model, consider a scenario where an employee presents data to his or her manager regarding a fatal reaction that a small percentage of children with allergies to a plastic component could experience because of a toy's formulation change. The manager can handle this situation in various ways, requiring an ethical analysis.

Step 1: Identify the Issue

The initial step in an ethical decision-making process is to clarify the issue and identify the ethical nature of the situation. The characterization of the problem can influence the scope of ethical analysis an individual undertakes. Pressures of the workplace may prompt quick action rather than allowing for time to examine the ethical aspects of decisions (Akrivou, Bourantas, Mo, & Papalois, 2011). Therefore, ethical decisions require knowledge about the context and extent of an ethical dilemma, including probing questions on the key facts of the situation, the values relating to the situation, and ethical principles or legal obligations influencing potential actions.

A difficult part of making the best decision can be delineating what information is known and proven, what information may be rumored or inexact, and what information is missing. In the toy scenario, the data that the employee presents needs verification before the best response can be determined. What is the data based on? Are there other sources of similar studies to verify the results from the data? Is the employee presenting the data trustworthy? The manager should be cognizant of any personal biases that may negate or confirm the data (Prentice, 2007).

Consider how the situation aligns or conflicts with the personal values of the person making the decision and the organization's values. Would deaths from product use align with personal values to respect human life? What are the organizational values that apply to a product

safety issue? Many companies express a value for providing safe and quality products to consumers. For example, Nestlé has a core principle that "Everywhere in the world, the Nestlé name represents a promise to the consumer that the product is safe and of high standard" (Nestlé, 2012, p. 10). Knowledge of personal and organizational values enables identification of the ethical aspects of a decision. Roy Disney said, "When your values are clear, making decisions becomes easier" (Maddock, 2014, p. 2).

Which personal or organizational ethical principles are most relevant to this situation? As with values, many companies provide guides for ethical behavior through formal principles or codes of ethics. Principles can relate to equity, liberty, and distributive justice. Equity principles refer to treating people fairly, engaging in fair competition, and creating just relationships. Liberty principles refer to safeguarding a person's rights. Distributive justice refers to the fair allocation of resources among societal stakeholders (Ferrell & Ferrell, 2008). Taking these three perspectives into consideration, the following ethical principles can guide individuals and organizations in making the right decision:

1. Integrity: Act with honesty in all situations.
2. Trust: Build trust in all stakeholder relationships.
3. Accountability: Accept responsibility for all decisions.
4. Transparency: Maintain open and truthful communications.
5. Fairness: Engage in fair competition and create equitable and just relationships.
6. Respect: Honor the rights, freedoms, views, and property of others.
7. Rule of Law: Comply with the spirit and intent of laws and regulations.
8. Viability: Create long-term value for all relevant stakeholders. (*The Life & Legacy of Bill Daniels*, 2012)

Does the dilemma conflict with any of these ethical principles? Consider the trust the customer places in the company to provide safe and effective products. Is there a legal or regulatory concern if the company ignores knowledge of a potentially dangerous product feature? The ethical principle relating to rule of law stresses compliance with the spirit and intent of regulations. Sometimes, the legal requirements are ambiguous or a situation may not have a direct application. An ethical decision may be to adopt voluntary guidelines to protect consumers, rather than use laws and regulations as a justification for not taking action (Drumwright & Murphy, 2004). Since there are conflicts with company values and principles, choosing the most ethical alternative requires further analysis.

Step 2: Identify the Stakeholders

This step in ethical decision making involves the processes introduced in Chapter 2 for identifying company stakeholders and their concerns about the safety of products, the well-being of employees, the transparency of company reports, and the social or environmental impact of corporate activities. Therefore, the toy manufacturer manager should consider any group or individual who can affect, or is affected by the organization's marketing of a potentially hazardous product. What are the stakeholder groups that require the most attention? What does each stakeholder group value? What concerns would each stakeholder group have for the situation? What outcome is most desirable for each stakeholder group?

Some ethical decisions involve a small group of stakeholders, making this step easy if the decision maker has an accurate knowledge of stakeholder values and concerns. Other decisions may require a formal stakeholder analysis to ensure inclusion of all stakeholder groups. Messick and Bazerman (1996) caution decision makers against the tendency to limit the search for stakeholders. They performed an ethical analysis using an example of a product that could harm a small group of consumers: a synthetic drug prescribed for women with problem pregnancies. Messick and Bazerman (1996) relate how the company failed to recognize that the impact of the drug reached beyond the visible stakeholder—the women who consumed the drug—and had devastating health effects on the women's daughters. Table 5.6 illustrates an example of the stakeholders to consider for the toy safety ethical scenario. Are there stakeholder groups that are missing from this analysis?

Table 5.6: Sample stakeholder analysis

Key Stakeholder	What Is Valued	Desired Outcome
Customers	Children's safety Truthful advertising	Immediate communication on health risks of products Replacement product or refund
Employees	Business continuity and success Reputable workplace	Minimal disruption of business Pride in workplace
Regulators	Safe products	Transparent communication to consumers Removal of harmful products
Shareholders	Business strategy and continuity Risk and reputation management Financial performance	Reduce or minimize legal and fiscal risk Maintain reputation

Through a stakeholder analysis, the desired outcomes of each stakeholder group outline some considerations for addressing the ethical dilemma. As with the first step, the breadth and depth of the stakeholder analysis influences the scope of the ethical analysis. Careful attention to this step can avoid biases of limiting stakeholders or misinterpreting stakeholder concerns. The next step involves identifying and analyzing alternatives by the three ethical traditions.

Step 3: Analyze Alternatives

An ethical dilemma requires the identification and assessment of possible alternatives. Brainstorming is one approach to identify alternatives for a situation. When employing this process, it is important to remain open to new alternatives and avoid the obvious or past solutions to a dilemma. The Ethics Resource Center (2009a) recommends that the decision maker consider at least three alternatives, but preferably more than five, to avoid limiting choices to two opposing choices. For example, for the toy safety scenario, alternatives could range from doing nothing to stopping production with a worldwide recall of products. Listing all possible solutions may generate groupings of common or complementary actions. Table 5.7 provides an example of an alternative analysis for consideration. Envision additional alternatives or combinations of alternatives for this situation. Note that the sample table only includes viable

alternatives, or those options that the individual or company has the capability to implement. For example, an option to cure the allergy causing the adverse reaction would not be a practical solution for the toy company.

Table 5.7: Sample alternative analysis

Viable Alternative	**Action** Laws and standards upheld or ignored	**Character** Values displayed (ethical principles)	**Outcome** Avoids harm to stakeholders & financial viability
Do nothing	Violates Consumer Product Safety Act (CPSA); against company policy of following up on allegations/reports	Against company value of delivering safe and quality products; conflicts with trust, integrity, transparency, and accountability	*Customers*: negative outcome; risk of death or harm *Shareholders*: negative outcome; increases risk of legal action by consumers and regulatory agencies
Notify consumers of hazard (hazardous material label on product)	Complies with letter of CPSA regulations	Impedes on company value of delivering safe and quality products; supports transparency; conflicts with spirit and intent of law; conflicts with accountability	*Customers*: positive and negative outcomes; informs them of risk; puts burden of safe use on customer *Shareholders*: positive and negative outcomes; low cost to implement, but could suffer financial or reputational loss if customer sues over death/harm to child
Recall all product from customers and retailers	Complies with spirit and intent of CPSA regulations	Follows company value of delivering safe and quality products; supports trust, accountability, rule of law, and transparency	*Customers*: positive outcome; avoids risk of death/harm *Shareholders*: positive and negative outcomes; benefit from reputational gains, but suffer financial losses due to cost of recall
Stop all production, reformulate product	Complies with spirit and intent of CPSA	Follows company value of delivering safe and quality products; supports trust, accountability, rule of law, and transparency	*Customers*: positive outcome; avoid risk of child's death/harm *Employees*: negative outcome; may experience lay-offs or reduced profit-sharing *Shareholders*: positive and negative outcomes; benefit from reputational gains, but suffer financial losses from reduced sales and greater research and development expense

The next step is an analysis of each alternative using the three ethical traditions of organizational and mandatory rules (action), character of the individual or organization (actor), and consequences to stakeholders and the organization (outcome). This assessment requires

knowledge of the company policies and mandated legal requirements relating to the situation. If the company sells in the United States, knowledge of a potentially harmful product would fall under the Consumer Product Safety Act (CPSA). The CPSA stipulates that a manufacturer, importer, distributor, and retailer of consumer products immediately notify the Consumer Product Safety Commission if it "obtains information which reasonably supports the conclusion that a product distributed in commerce fails to comply with an applicable consumer product safety rule or with a voluntary consumer product safety standard" (Office of Compliance and Field Operations, 2012, p. 6). Other countries may have similar statutes or regulatory requirements.

The sample assessments of alternatives in Table 5.7 illustrate how using only one ethical tradition could bias selection of the optimal solution. For example, multiple alternatives meet the legal requirements for an ethical solution. Differentiations among those alternatives emerge when including character alignment and consequences to company stakeholders. Note that an ethical analysis may not provide a solution that avoids harm of all stakeholders. Johnson (2009) relates that even after careful definition and analysis of an ethical issue, decision makers can reach and defend different conclusions. Choosing the ethical alternative is the next step of the ethical decision-making model.

Step 4: Take Action

How can one decide which of the possible actions is the most ethical? According to Narvaez and Rest (1995), **moral judgment** is the process an individual undertakes to weigh choices and determine which should be implemented. Upon identification of possible actions, moral judgment entails deciding which action is right and which options are wrong. Narvaez and Rest stress that while moral judgment is rooted in an individual's value system, education and experience strengthens a person's moral judgment over time.

In their 10-step ethical decision-making model, Pekel and Wallace (2006) provide a practical tool for determining the most viable alternative to implement. To become the preferred viable option, the alternative must meet three criteria: 1) it "prevents or minimizes harm to the major stakeholders"; 2) it "upholds the . . . values and ethical principles" of the individuals and organizations; and 3) it "is a good, workable solution to the situation that can actually be implemented" (p. 9). Note that Pekel and Wallace prioritize the alternatives on least amount of harm to stakeholders and alignment with the character of the entity. Their criteria does not preclude adherence to policies and laws, but as Drumwright and Murphy (2004) state, "The law is often a 'blunt tool'—a cumbersome and often inefficient method with which to deal with ethical issues" (p. 12). Therefore, while laws and policies should be the minimum consideration, business leaders should exercise caution when thinking that legal means ethical.

Decision makers can reassess the chosen alternative prior to taking action through a series of questions. They could ask:

- What would a reasonable person think about this decision?
- Can you easily explain what makes the decision ethical?
- What if my decision was made public? Or appeared in the newspaper?

A tactic promoted by Pekel and Wallace (2006) is to identify the worst possible repercussion of taking the chosen action. By describing a worst case scenario from implementing the preferred alternative, modifications to the solution may eliminate risks of unintended consequences of a seemingly ethical decision. Consider the worst case scenario if the toy manager chose to implement a warning label on the toys since the potential for an allergic reaction affected only a small percentage of consumers. The worst case could be that children using toys missing the label die from exposure to the plastic. An investigation of the cause could result in class action lawsuits and damage to the company's reputation. What modification could mitigate the risks? Options include etching the warning on the product, including explicit warning in product literature, and publicizing the danger to day care facilities and retailers.

Step 5: Monitor Outcome

The final step in ethical decision making is to assess the outcome from implementing the chosen alternative to learn from the decision process. Consider how the action taken meets the following tests:

- Will the decision stand the test of time?
- Is this a model of "right" behavior?
- Am I proud of the decision?

If any answers are negative, then the decision maker should reassess factors influencing the ethical decision-making process. Bazerman and Tenbrunsel (2011b) assert that "cognitive biases and organizational systems blind managers to unethical behavior, whether their own or that of others" (p. 61). People tend to believe they are more ethical than they really are, and organizations can't rely on an ethical program to ensure ethical decisions. Consider if the manager in the toy scenario decided to do nothing, and there were no allergic reactions attributed to the toy. Does that make the decision ethical? According to Bazerman and Tenbrunsel (2011b), a reason for many ethical lapses is management's tendency to overlook unethical behaviors when outcomes are good.

The consequences of an ethical decision may not be evident immediately. For instance, General Motors (GM) has come under scrutiny of safety regulators for failing to replace a fatally flawed ignition switch in Chevrolet Cobalts due to cost, estimated by some reports as less than $1 (Nelson, 2014). As of April 2014, GM had recalled 2.2 million cars and incurred expenses of $1.3 billion in repairs because of faulty ignition switches causing 13 deaths over a decade (Muller, 2014b). The decision not to correct this known hazard costs lives, creates financial burdens, and damages GM's reputation. Organizations should take note and avoid the ethical traps and blind spots that prevent ethical decisions.

Summary & Resources

Chapter Summary

Understanding the role that ethical theory and moral development has on ethical decision making facilitates effective handling of dilemmas in the workplace. Ethical theories fall into three ethical traditions that reflect teleological or deontological ethics for answering the

question, "what is the right thing to do?" The first relates to actions—focusing on what a company or individual is doing. The next tradition considers the agent—focusing on who, or the character of company or person. The final tradition considers the outcome—focusing on the consequences of a decision. While one dimension may be more prevalent than another, a typical business decision incorporates all three approaches.

Individual factors influence ethical decision making. Three decision-making styles include idealism, pragmatism, and opportunism. Moral reasoning involves transforming values, beliefs, and principles into action. People develop moral reasoning gradually, becoming more sophisticated at reasoning through ethical dilemmas over time. Six stages of moral development include three levels that relate to preconventional (self-centered), conventional (conformity), and postconventional (principled). There are three social needs that may motivate an individual in an ethical decision-making situation: achievement, affiliation, and power. Individuals with high relativism feel that one cannot make claims of right or wrong, whereas individuals with high moral idealism expect that the right action is attainable in all situations. Cultural differences influence moral philosophies and ethical positions, increasing potential for conflicts within a global organization.

An ethical decision model is a resource for individuals to work through an ethical issue when the right decision is not evident. The model provides employees with a process to help them analyze ethical issues in routine business situations. Each step of the model involves further reflection to 1) identify the issue, 2) identify the stakeholders, 3) analyze alternatives, 4) take action, and 5) monitor outcomes.

Key Terms

categorical imperative A philosophy that decisions must be suitable for all parties faced with the same dilemma.

consequentialism Ethical philosophies that presume that the value of an action derives from the value of its outcomes.

deontological ethics Moral philosophies that determine the ethics of an action in relation to conformity to rules or laws.

distributive justice Moral philosophies that relate to the fairness of outcomes.

ethical decision-making model A resource or tool designed to help employees work through an ethical dilemma.

ethical egoism A moral philosophy that considers an action to be morally right when it maximizes one's self-interest.

ethics of care An ethical theory encompassing social virtues that focuses on maintaining relationships.

idealist A person who acts on his or her moral ideals, no matter what.

moral idealism The expectation that the right action is attainable in all situations.

moral judgment The process an individual undertakes to weigh choices and determine which should be implemented.

moral reasoning The process in which individuals define whether an action is morally right.

need for achievement An individual's preference for goals that are well defined and moderately challenging.

need for affiliation An individual's inclination to work with others in the organization rather than alone.

need for power An individual's desire to have influence and control over others.

opportunist A person who is driven exclusively by his or her own material welfare.

pragmatist A person who acts on moral values only if such behavior does not place himself or herself at a disadvantage.

stages of moral development Kohlberg's theory positing that individuals naturally progress through a series of definite and describable stages of moral reasoning.

teleological ethics Moral theories positing that the rightness of a decision comes from being a good person and the results.

tribalism A predisposition to act in union with others to achieve the greater good for the group.

utilitarian calculus The act of giving numerical values to various consequences of an action and mathematically assessing whether the good outweighs the bad.

utilitarianism The philosophy that an ethical decision is the one that provides the greatest good for the greatest number.

virtue ethics Ethical theory that considers the moral character of individuals in making good decisions.

Critical Thinking and Discussion Questions

1. How does management discuss ethics at your current or former workplace? Why would managers avoid discussing ethics or ethical philosophies with employees? Develop a strategy for communicating an ethical decision-making framework to a workforce.
2. What are the alternatives for handling each of the following situations? Assess each alternative using the action, actor, and outcome ethical traditions. What would you do in each case?
   a. Business is suffering, and employees are leaving your sinking ship. You hold a meeting with existing employees who want to know if their jobs are safe.
   b. Company product prices are going up January 1. Your supervisor tells you to move a customer's automatic shipment for December to January 1 so you can charge the higher rates.
   c. You are driving to a project status report meeting with your client and are considering whether to tell the client that the team encountered a significant technical problem that has put the project behind schedule.
3. Think back to a situation you have personally encountered at work that involved ethical choices. How did you make a decision? Which ethical traditions tended to shape your thinking about the situation—rules, character, or outcomes? Were you satisfied with your choice?
4. Why do your decisions on ethical issues matter? What do you find to be the most challenging part of making an ethical decision? How can you improve your moral reasoning in the workplace?

Case Study: Whistle-blower to Press

Sheila is the manager of a strategic planning department of a multinational organization that owns and manages apparel-manufacturing facilities in a developing country. The company's advertising emphasizes the organization's "partnership with the developing world." In recent weeks, the company has been the subject of a series of critical articles in a national paper. The articles have contained detailed exposés about the exploitive pay and conditions in the factories. The newspaper has also commented unfavorably on the arrangements that the organization made with the country's government for the repatriation of profits.

The information in the articles includes confidential company information, and it is evident that a member of the organization has been supplying the information. The organization has a rule that staff members "must not disclose commercial information to unauthorized persons" and another that says "all contact with the press must be handled by the properly authorized officers." The company leadership is adamant that employees abide by the policy worldwide.

Sheila is mortified that the company for which she works could engage in such activities in these countries. It goes against her personal sense of fairness. At a social function, a member of Sheila's department, Kevin, inadvertently blurts that he has been supplying the information to the newspaper. Kevin immediately recognizes that he should not have told Sheila and says, "You must ignore what I have said or I will be sacked."

Source: Adapted from "In the News," from the Institute of Business Ethics. (http://www.ibe.org.uk/)

Questions to Consider

1. What are the issues in this scenario that create an ethical dilemma for Sheila?
2. What should Sheila do with the information learned from Kevin? Assess the situation using an ethical decision framework for the best manner for Sheila to handle this situation.
3. Which ethical traditions tended to shape your thinking about the situation—rules, character, or outcomes? Or, were they all roughly the same? Why do you think that is?

Suggested Resources

Daniels Fund

http://www.danielsfund.org/

Ethical Decision Making, Markkula Center for Applied Ethics

http://www.scu.edu/ethics/practicing/decision/

The PLUS Decision Making Model, Ethics Resource Center

http://www.ethics.org/resource/plus-decision-making-model