What Your Mother Never Taught You:
How to Teach Business Ethics

O.C. Ferrell, Ph.D.

Bill Daniels Distinguished Professor of Business Ethics
University of Wyoming
College of Business
Laramie, WY 82072
Ph. (307) 766-3444
Email: oferrell@uwyo.edu
Website: www.uwyo.edu/businessethics
www.e-businessethics.com

Linda Ferrell, Ph.D.

Associate Professor of Marketing
Department of Management and Marketing
College of Business
University of Wyoming
Laramie, WY 82072
Ph: (307) 766-3723
E-mail: LFerrell@uwyo.edu

Adapted from "Understanding How to Teach Business Ethics by Understanding Business Ethics in Sheb L. True, O.C. Ferrell and Linda Ferrell (2005) *Fulfilling Our Obligations: Perspectives on Teaching Business Ethics,* Kennesaw State University Press.

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Introduction

One of the greatest challenges in teaching business ethics is determining the subject matter and content that needs to be taught. When examining business ethics courses it is obvious that there are many different framework issues and philosophies for teaching the course. This is because there is not agreement about what students should understand and the role of values, philosophies and culture, as well as critical thinking in making ethical decisions. One approach is to take an individual perspective and focus on personal morals, character and the individual. This approach assumes that virtues linked to the high moral ground of truthfulness, honesty, and fairness are self-evident and easy to apply in a complex organizational environment. This approach would assume that organizational values and ethics training may be more appropriate for individuals with unacceptable moral development. It also assumes that students will be able to control their decision making environment independent of managers and co-workers. Another approach to teaching business ethics is to assume that organizational values and compliance systems are necessary to prevent people from engaging in unethical conduct. This approach recognizes the risks and the complex decision-making environment in an organization. Business ethics programs and organizations combine values and compliance, which requires training and constant vigilance. All organizations will face ethical lapses, unintentional misconduct, and complacency from employees when they observe serious misconduct.

The scandals and unethical conduct that have occurred over the last few years have taught us that some people deliberately break the law or engage in inappropriate behavior. Many others never see ethical issues when devising what they think as an innovative scheme for success.

Since the Supreme Court and the Federal Sentencing Guidelines for Organizations (FSGO) hold organizations responsible for the conduct of their employees, most firms have decided to implement ethics and compliance programs to prevent misconduct and diminish the risk associated with employee wrongdoing. The 2004 Amendments to the FSGO hold the governing authority, usually the board of directors, responsible for ethical leadership including an effective ethics program and internal ethics audits. In addition, an ethics officer with adequate resources is required to report directly to the board or a committee of the board. Even though the majority of employees want to do the right thing, many people don't know the exact nature of the law and are totally surprised when they are charged with violations that were never anticipated. The legal system and the nature of civil litigation make ethical decision making a 'mine field' for possible error without adequate knowledge of the potential risk of a decision.

Our perspective for teaching or integrating business ethics in a College of Business is consistent with AACSB International's Ethics Education Task Force Report that identifies the domain of business ethics in colleges of business as ethical leadership, ethical decision making, corporate governance, and business and society. These areas are discussed in detail in a related paper "Developing a Framework for a College of Business Ethics Initiative" available at www.uwyo.edu/businessethics.

One approach to deciding what to teach in a business ethics course is to understand and describe how ethical decisions are made and the environment that influences ethical decision making. While there may be many significant and meaningful aspects of ethics that can be taught to students that will help them live a better life, there should be some foundational concepts taught to business students that will help them obtain a holistic understanding of business ethics. Assuming that business ethics is integrated throughout the curricula does not guarantee that those teaching ethical knowledge will provide a uniform framework for understanding how ethical decision making occurs in the context of an organization. For example, what if accounting, marketing, and finance had no required courses and it was just assumed these topics would be integrated into other courses.

Many students have a difficult time understanding that ethics requires going beyond minimal legal requirements. Trying to find a framework that helps students see the benefits of conducting oneself according to the highest ethical standards is difficult indeed. We believe that the best opportunity for achieving this goal would be a foundational ethics course that provides an understanding of stakeholders that shape and form ethical issues and evaluations, and a description of how leadership, corporate culture, formal ethics programs, and individual character are important to ethical decision making. Business ethics has become an established academic discipline and an important area of practice in corporations.

The Ethics Resource Center website reported, in the 2005 National Business Ethics Survey (NBES), that 52% of employees observed at least one type of misconduct in the past year. Just over half (55%) reported the misconduct to management, a 10 percentage point decrease since the 2003 NBES survey. In addition, organizations with strong ethical cultures and full formal ethics programs are less likely to observe misconduct. Formal ethics programs were found to be an essential element of a strong organizational culture.

The reality is that employees are at a high risk for observing or engaging in misconduct. According to the NBES survey, in the last year one-third of all employees encountered a situation at work that they think invites ethical misconduct. Formal programs and strong ethical cultures significantly reduce the pressure to engage in misconduct, the observation of misconduct, and the need to report misconduct. The Open Compliance Ethics Group (OCEG) reports that firms that have an effective ethics program and culture do not have scandals and events that cause significant legal or reputation damage. In fact, no firm with a strong ethics program for 10 years has had a major ethical scandal in the last 5 years. The U.S. Sentencing Commission reports that no firms with an effective ethics program have had significant legal or reputation damage in the last 5 years. For more information on the current state of corporate ethics and compliance see our paper "Current Developments in Managing Organizational Ethics and Compliance Initiatives" at www.uwyo.edu/businessethics.

Stakeholders Define Business Ethics Issues[1]

A stakeholder perspective is an appropriate framework for teaching all four areas of business ethics as identified by AACSB International. Many professors teaching business ethics, business and society, or specialized ethics courses in marketing, accounting, and management use a stakeholder framework to see how agreement, collaborations, and even confrontations exist on an ethics issue. Stakeholders designate the individuals or groups that can directly or indirectly affect, or be affected by, a firm's activities (Freeman, 1984). Stakeholders can be viewed as both internal and external. Internal stakeholders include functional departments, employees, boards of directors, and managers. External stakeholders include interest groups, consumers, competitors, advertising agencies, and regulators (Miller and Lewis, 1991). The various relationships should be identified and interests understood.

Another view of stakeholders characterizes them as primary or secondary. Primary stakeholders are those whose continued participation is absolutely necessary for business survival; they consist of employees, customers, investors, suppliers, and shareholders that

[1] Adapted from Isabelle Maignan, OC Ferrell, and Linda Ferrell, (2005) "A Stakeholder Model for Implementing Social Responsibility," *European Journal of Marketing*, Vol 39, #9/10, pp. 956-977.

provide necessary infrastructure. Secondary stakeholders are not usually engaged in transactions with the business and are not essential for its survival; they include the media, trade associations, non-governmental organizations, along with other interest groups. Different pressures and priorities exist from primary and secondary stakeholders (Waddock et al., 2002). Unhappy customers may be viewed with less urgency than negative press stories that can damage a business (Thomas et al., 2004). Highly visible secondary stakeholders such as an interest group or the media may at times be viewed with greater concern than employees or customers. Remote stakeholders at the fringe of operations can exert pressure calling into question the firms' legitimacy and right to exist (Hart and Sharma, 2004). The three critical elements in assessing stakeholder influence are their power, legitimacy and urgency of issues (Mitchell et al., 1997).

Power has been defined as "the ability to exercise ones will over others" (Schaefer, 2002). Legitimacy relates to socially accepted and expected structures that help define whose concerns or claims really count and urgency captures the dynamics of the time-sensitive nature of stakeholder interactions (Mitchell et al., 1997). Power and legitimacy may be independent but the urgency component sets the stage for dynamic interaction that focuses on addressing and resolving ethical issues.

Shared ethical values and norms. Major stakeholders may have different needs and a fine-grained approach may be needed to ascertain even differences within major stakeholder groups, such as customers, employees, suppliers, and investors (Harrison and Freeman, 1999). On the other hand, usually, a certain number of individual stakeholders share similar ethical values and norms (Maignan and Ferrell, 2004). Some of them choose to join formal communities dedicated to better defining, and to advocating, these ethical values and norms.

Stakeholder issues in business. Stakeholder ethical values and norms apply to a variety of business issues such as sales practices, consumer rights, environmental protection, product safety, and proper information disclosure (Maignan and Ferrell, 2004). Noticeably, stakeholder values and norms concern both issues that do and do not affect stakeholders' own welfare. For example, consumers may worry not only about product safety, but also about child labor, an issue that does not impact them directly. Stakeholder issues are the concerns that stakeholders embrace about organizational activities and the residual impact.

S*takeholder pressures.* As illustrated in Figure 1, various stakeholder communities are likely to exercise pressures on the organization and on each other in order to push forward their own ethical values and norms. Figure 1 further illustrates that, in spite of disparities across communities, stakeholders conform to broad and abstract norms that define acceptable behavior in society. Noticeably, each business has its own values and norms depicting desirable behaviors based on its corporate culture and operations. These organizational values and norms overlap with those of some stakeholder groups, and especially with those of primary stakeholders since they are in the best position to exercise an influence on the organization.

A Framework for Understanding Organizational Ethical Decision Making[2]

In teaching business ethics it is necessary to understand how people make business ethics decisions. This area of understanding relates to the AACSB International ethical decision making dimension. Within the context of an organization, there is an ethical component to business decisions and this decision maybe influenced by the organization, the specific situation, or pressure exerted by coworkers. Figure 2 illustrates a model of ethical decision making in an

[2] Adapted from O.C. Ferrell, Nature, Scope and History of Marketing Ethics in Marketing and Public Policy. Marketing and Society, (forthcoming), Thomson South-Western, OH, William Wilkie, Greg Gundlach and Lauren Block (Eds.).

organizational environment.   External stakeholder interests, concerns or dilemmas help trigger ethical issue intensity. Organizational culture (internal stakeholders) and individual moral philosophies and values influence the recognition of ethical issues and business ethics decisions. The decisions or outcomes are evaluated by both internal and external stakeholders. While it is impossible to describe precisely how or why an individual or a work group may make a specific decision, we can generalize about average or typical behavior patterns within organizations.

First, as previously discussed, organizations can identify the importance of stakeholders and stakeholder issues, and gather information to respond to significant individuals, groups, and communities. Next, in the decision-making process, managers should identify the importance or relevance of a perceived issue– i.e., the intensity of the issue (Jones, 1991). The intensity of a particular issue is likely to vary over time and among individuals and is influenced by the organizational culture, values and norms; the special characteristics of the situation; and the personal pressures weighing on the decision. Personal moral development and philosophy, organizational culture, and coworkers, determine why different people perceive issues with varying intensity (Robin, Reidenbach, and Forrest, 1996).

Perhaps one of the greatest challenges facing the study of business ethics involves the role of individuals and their values. Although most of us would like to place the primary responsibility for decisions with individuals, years of research point to the primacy of organizational factors in determining ethical decisions at work (Ferrell, 2005). However, individual factors are obviously important in the evaluation and resolution of ethical issues, and familiarity with theoretical frameworks from the field of moral philosophy is helpful in determining ethical decision making in business (Murphy et. al, 2005). Two significant factors in business ethics are an individual's personal moral philosophy and stage of moral development.

Through socialization, individuals develop their own ethical pattern of behavior, including judgments about right or wrong actions. This socialization occurs from family, friends, formal education, religion, and other philosophical frameworks that an individual may embrace.

Although individuals must make ethical choices, it is also true that they often make these decisions in committees, group meetings, and through discussion with colleagues. Ethical decisions in the workplace are guided by the organization's culture and the influence of others, such as coworkers, superiors, subordinates. In fact, more ethical misconduct is done to benefit organizational performance rather than to satisfy personal greed.

The ethical climate of an organization is a significant element of organizational culture. Whereas a firm's overall culture establishes ideals that guide a wide range of behaviors for members of the organization, its ethical climate focuses specifically on issues of right and wrong. The ethical climate is the organization's character or conscience. Codes of conduct and ethics policies, top management's actions on ethical issues, the values and moral development and philosophies of coworkers, and the opportunity for misconduct all contribute to an organization's ethical climate. In fact, the ethical climate actually determines whether or not certain dilemmas are perceived as having an ethical intensity level that requires a decision.

Organizations can manage their culture and ethical climate by trying to hire employees whose values match their own. Some firms even measure potential employees' values during the hiring process and strive to choose individuals who "fit" within the ethical climate rather than those whose beliefs and values differ significantly. A poor "fit" can have very expensive ramifications for both organizations and employees. Beyond the potential for misconduct, a poor employee-organization ethical fit usually results in low job satisfactions, decreased performance, and higher turnover (Sims and Kroeck, 1994).

Together, organizational culture and the influence of coworkers may foster conditions that limit or permit misconduct. When these conditions provide rewards, such as financial gain, recognition, promotion, or simply the good feeling from a job well done – the opportunity for unethical conduct may be encouraged, or discouraged, based on ethical climate. For example, a company policy that does not provide for punishment of employees who violate a rule (e.g., not to accept large gifts from client) provides an opportunity for unethical behavior. Essentially, this lack of policy allows individuals to engage in such behavior without fear of consequences. Thus, organizational policies, processes, and other factors may contribute to the opportunity to act unethically.

Opportunity usually relates to employees' immediate job context – where they work, with whom they work, and the nature of the work. The specific work situation includes the motivational "carrots and sticks" that superiors can use to influence employee behavior. Pay raises, bonuses, and public recognition are carrots, or positive reinforcement, whereas reprimands, pay penalties, demotions, and even firings act as sticks, the negative reinforcement. For example, a salesperson that is publicly recognized and given a large bonus for making a valuable sale that he obtained through unethical tactics will probably be motivated to use unethical sales tactics in the future, even if such behavior goes against his personal value system. Research has shown that there is a general tendency to discipline top sales performers more leniently than poor sales performers for engaging in identical forms of unethical selling behavior (Bellizzi and Hasty, 2003). Neither a company policy stating that the behavior in question was unacceptable nor a repeated pattern of unethical behavior offset the general tendency to favor the top sales performers. A superior sales record appears to induce more lenient forms of discipline despite managerial actions that are specifically instituted to produce more equal forms of discipline. Based on their research, Bellizzi and Hasty concluded that an opportunity exists for top sales performers to be more unethical than poor sales performers.

This framework helps students put ethical decision making in business context and see how the process fits together. Once students begin to understand that good ethics is linked to organizational performance they see why it is necessary to have organizational ethics and compliance programs. Also, students begin to see the personal costs including reputation damage from misconduct.

Conclusion

The approach to teaching business ethics that we suggest is based on a foundational course that helps students integrate the personal, organizational, and societal components of ethical decision making. This approach gives the professor the opportunity to emphasize specific ethical issues related to corporate governance, ethical decision making, ethical leadership, and the responsibility of business to society.

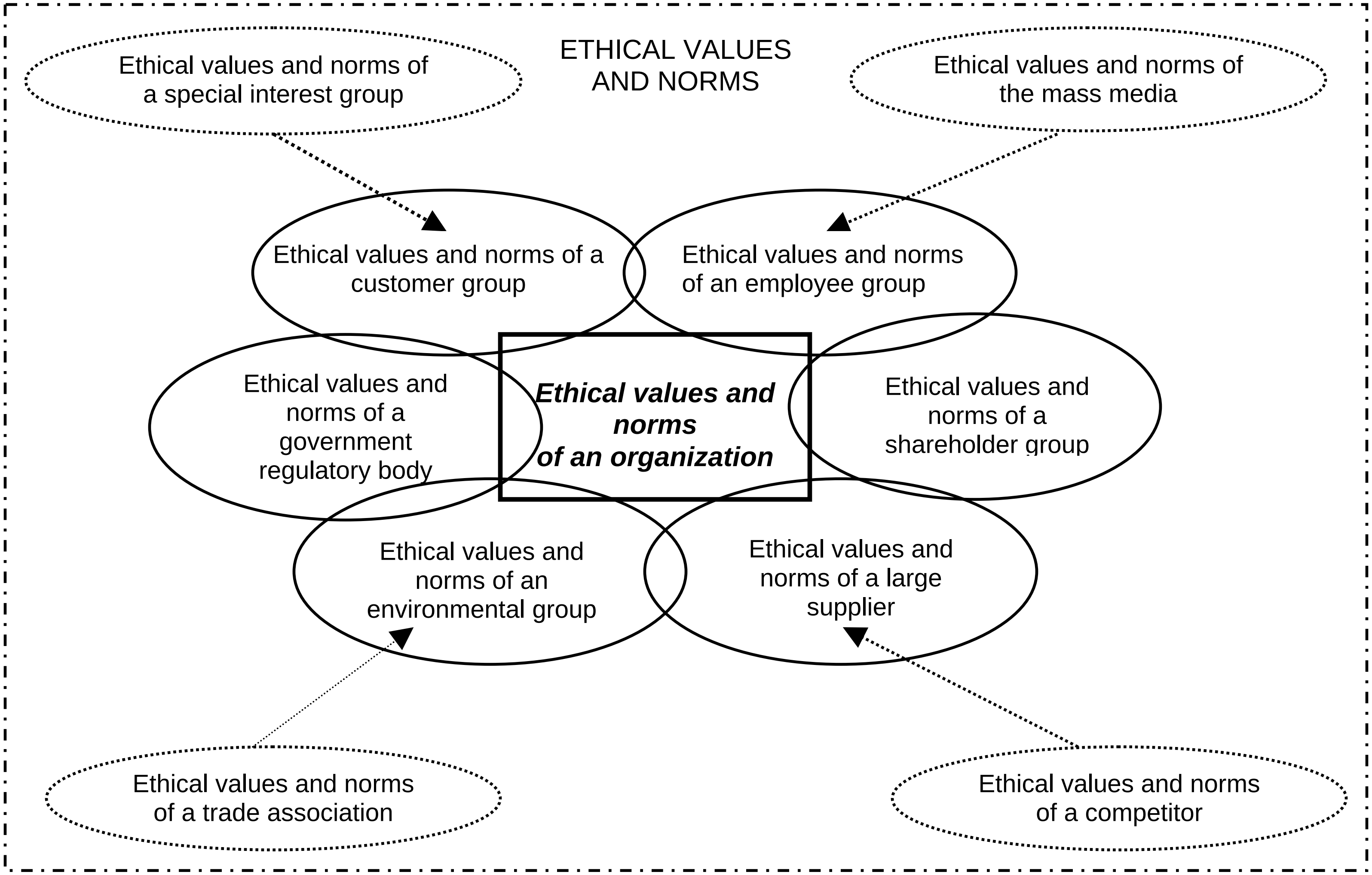
Using a stakeholder and an organizational decision making framework helps the student link societal, organizational, and individual interests. These approaches can help them develop their own values and cognitive skills in decision making. The development of critical thinking is an important part of ethical decision making. While the development of personal character is important, it must be linked to competence in understanding risks and approaches to managing ethics and compliance in a complex organizational context.

Business ethics in organizations requires values-based leadership from top management, purposeful actions that include planning and implementation of standards of appropriate conduct, as well as openness and continuous effort to improve the organization's ethical performance.

Although personal values are important in ethical decision making, they are just one of the components that guide the decisions, actions, and policies of organizations. The burden of ethical behavior relates to the organization's values and traditions, not just to the individuals who make the decisions and carry them out. A firm's ability to plan and implement ethical business standards depends in part on structuring resources and activities to achieve ethical objectives in an effective and efficient manner. Wal-Mart and Coca Cola provide excellent examples of highly visible firms who have failed to provide the ethical leadership necessary to avoid misconduct that has damaged their reputation, market value, and ability to attract and retain employees.

By focusing on business issues and organizational environments, students see the roles and responsibilities they may face as they advance in the workplace. The goal is to enhance the awareness and the decision-making skills students will need to make business ethics decisions that contribute to responsible business conduct. By focusing on the concerns and issues of today's challenging business environment, one can demonstrate that studying business ethics provides vital knowledge that contributes to overall business success.

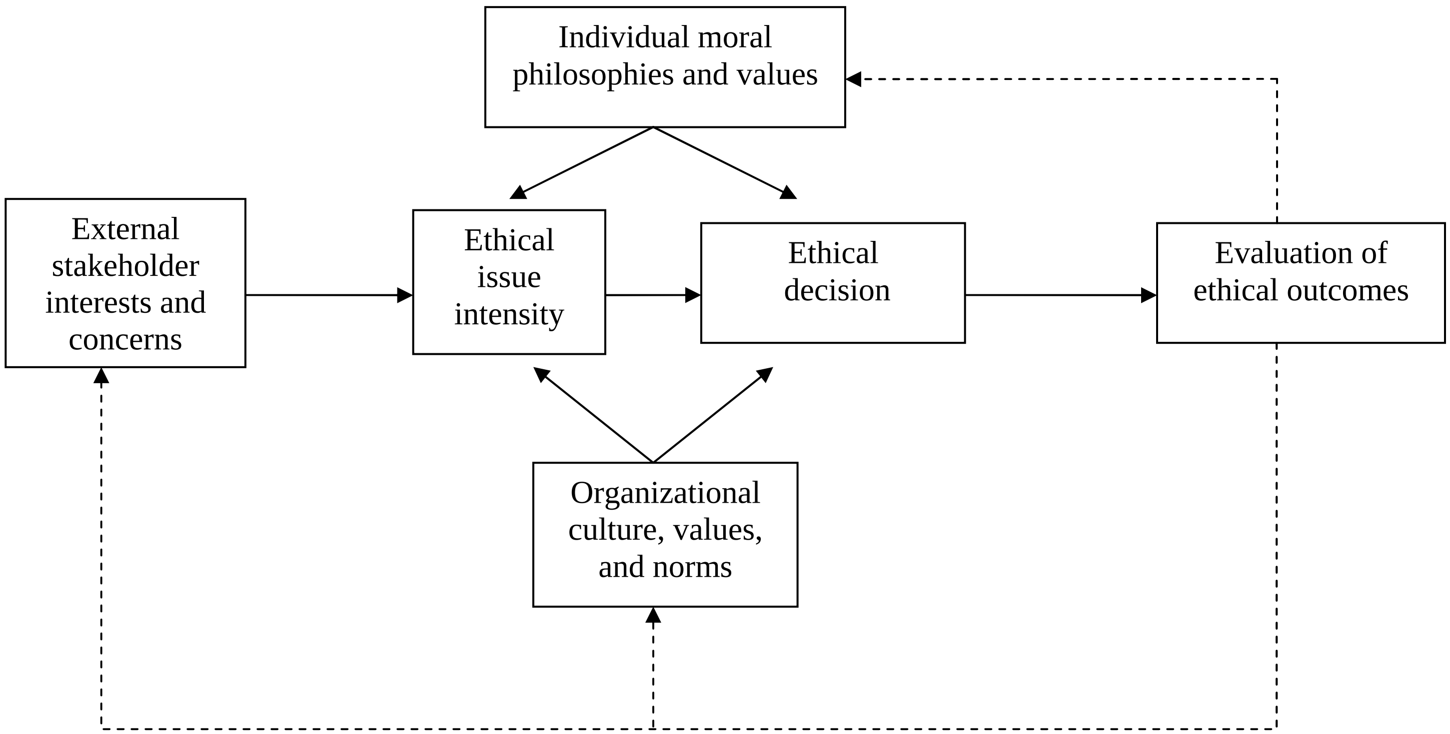
FIGURE 1: Interactions Between Organizational and Stakeholder Ethical Values and Norms



Primary stakeholders; Secondary stakeholders; Society at large

Adapted from Isabelle Maignan, OC Ferrell, and Linda Ferrell, "A Stakeholder Model for Implementing Social Responsibility,"European Journal of Marketing, Vol, 39, #9.10, pp. 956-977.

FIGURE 2. Framework for Understanding Organizational Ethical Decision Making



Source: O.C. Ferrell, 2005 ©

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