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Business Ethics

Chapter 1 Summary

Chapter 1 defines the term business ethics and explores the development and importance of this critical business area. **Business ethics** is the principles and standards that guide behavior in the world of business. Investors, employees, customers, interest groups, the legal system and the community will determine whether an action is right or wrong, or ethical or unethical. An individual's morals and decision making experience may not be sufficient to guide them in the business world. Studying business ethics will help you to begin to identify ethical issues and recognize the approaches available to resolve them.

The study of business ethics evolved through five distinct stages; (1) before 1960, (2) the 1960's, (3) the 1970's, (4) the 1980's, and (5) the 1990's, and continues to evolve in the twenty-first century. Before the 1960's, business ethics were discussed primarily through a religious perspective. It was in 1962 that John F. Kennedy established the **Consumer's Bill of Rights**, in which he outlined four basic consumer rights: the right to safety, the right to be informed, the right to choose and the right to be heard. In the 1970's, business professors began to write and teach about **social responsibility**, an organization's obligation to maximize its positive impact on stakeholders and minimize its negative impact. Companies became more concerned with their public image and wanted to address ethical issues more directly. In the 1980's, centers of business ethics provided publications, courses, conferences, seminars, ethics committees, and social policy committees. The **Defense Industry Initiative on Business Ethics and Conduct** was developed to guide corporate support for ethical conduct. Its principals had a major impact on corporate ethics. This effort established a method for discussing best practices and working tactics to link organizational practice and policy to successful ethical compliance. In the 1990's businesses with international operations set up new ethical issues. The **Federal Sentencing Guidelines for Organizations** was approved by Congress in 1991 to reward organizations for taking actions to prevent misconduct, such as developing effective internal legal and ethical compliance programs. In 2002, Congress passed the **Sarbanes-Oxley Act** which made securities fraud a corporate offense and stiffened penalties for corporate fraud. Top executives are now required to sign off on their firms' financial reports, and they risk heavy fines and long prison sentences if they misrepresent their company's financial position. The term **ethical culture** can be viewed as the character or decision making process that employees use to determine whether their responses to an ethical issue are right or wrong. An ethical culture creates shared values and support for ethical decisions and is driven by top management.

Research demonstrates that building an ethical reputation to the public provides benefits that include increased efficiency in business operations, employee commitment, investor trust, customer trust and better financial performance. The reputation of a company has a major effect on its relationships and has the potential to affect its bottom line. Chapter 1 also introduces a framework for studying business ethics.