Chapter 34

Business ethics

'The law does not pretend to punish everything that is dishonest. That would seriously interfere with business.'

Clarence Darrow (1857–1938)
American lawyer and leading member of the American Civil Liberties Union

What is covered in this chapter

WHY THIS CHAPTER IS IMPORTANT

Business ethics examines ethical principles and moral problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organisations.

There are many choices you will make every day that reflect on your own sense of ethics: whether it's taking an advantage that unfairly affects others, or using an opportunity to be dishonest that places you ahead.

Sometimes the opportunity to be corrupt is seen as a perk. It is important that you understand consumers judge businesses by the choices they make, and that unethical decisions are not only morally wrong but can also mean very bad business.

This chapter will also show you a test to apply to a decision to allow you to understand whether the decision is an ethical one or not.

BUSINESS ETHICS

1 Introduction

The term 'business ethics' is used in three different ways:

- As the 'ethics in business' – the morality of business.
- As an academic study from the early 1970s.

- As a recent movement to build ethics into the structures of corporations in the form of ethics codes, ethics officers, ethics committees and ethics training.

This text will examine business ethics in all three ways, and then discuss typical ethical issues that arise in the business world.

2 Ethics in business

Ethics in business is the application of moral or ethical norms to business. Throughout history various religions relied on ancient texts to guide people's actions in all areas, including business. An example from the Bible is the Ten Commandments, a guide that is still used by many today. In particular, the concepts of truthfulness and honesty, and the prohibition against theft and envy, are directly applicable to the world of business.[1]

There are similar traditions in philosophy. Aristotle discussed economic relations, commerce and trade. In his writings on property, money and wealth, he makes moral judgments about greed. He also gives the classic definition of justice as 'giving each his due, treating equals equally, and trading equals for equals' or 'having an equal amount both before and after the transaction'.[2]

John Locke developed the idea of property being a natural right. According to him a person acquired property by mixing labour with what they find in nature.[3] Adam Smith, the father of modern economics, developed Locke's ideas into a labour theory of value, according to which all economic value comes from human labour. John Stuart Mill, Immanuel Kant, and Georg Wilhelm Friedrich Hegel all wrote on economic matters and just distribution.[4]

Karl Marx was a powerful critic of capitalism as it developed through the 19th century. According to Marx, the only commodity not sold at its real value was human labour. The difference between the value the workers produce and what they are paid was the source of profit for the employer or the owner of the 'means of production'. If workers were paid the value they produced, there would be no profit and capitalism would disappear. In its place would be socialism and eventually communism, in which all property is socially (as opposed to privately) owned, and in which all members of society would contribute according to their ability and receive according to their needs. The result would be a society (and eventually a world) without exploitation and without the alienation that workers experience in capitalist societies.[5]

Business ethical norms reflect the norms of each historical period. These norms change over time, and some behaviours that were once generally accepted have become objectionable. Over history, business has been involved in slavery, colonialism, and war, and each time has justified the profits it has made from those activities.

1 De George, R T, *A History of Business Ethics*, California: Santa Clara University, 2010. Available at:https://www.scu.edu/ethics/focus-areas/business-ethics/resources/a-history-of-business-ethics/ accessed 19 January 2017.

2 Crisp, R (ed), 'Aristotle', *Nicomachean Ethics*, Cambridge: Cambridge University Press, 2000.

3 Locke, J, 'Of Property', *Second Treatise: An Essay Concerning the True Original, Extent and End of Civil Government.*

4 De George, R T, *A History of Business Ethics*, California: Santa Clara University, 2010.

5 Ibid.

3 Business ethics as an academic field

During the 1960s in the USA, the Civil Rights movement helped create opposition to the war in Vietnam, including distrust of official public policy and the 'military-industrial complex'. The spirit of protest led to the environmental movement, the rise of consumerism, and to criticism of multinational corporations.[6]

Corporations responded by developing the notion of 'social responsibility', which was the term used to describe activities that were beneficial to society and that somehow made up for some unethical or antisocial activity with which the company had been linked.

Courses in social responsibility at the time were more concerned with specific case studies rather than with the development of standards against which to measure corporate activity. Typically, social issues were things to be addressed only after laws were complied with and the business had made profits.

This changed in the 1970s after philosophers brought ethical theory and philosophical analysis to issues in business. This provided an ethical framework within which to evaluate business and corporate activities. While social responsibility was defined by corporations to cover whatever they did so that they could present themselves as helping society, ethics had standards within it that were independent of what corporations wanted. This meant that ethics could be critical of business practices. Ethics were not issues to be addressed only after profits and legal compliance, but were seen as restraints on economic activity. Ethics was seen as a source for justifying law and for proposing additional legal restraints on business when appropriate. As a result business ethics was not popular with the business community, which often perceived it as a threat.[7]

Ethics covered the entire ethical foundations of business, of private property, and of various economic systems. Attention was focused on the corporation — its structure and activities, including all the functional areas of business such as marketing, finance, management, and production. Related issues, such as the environmental impact of business actions, were included, as well as the activities of multinational corporations.[8]

Initially business ethics analysed business activities using philosophical theories:

- **Consequentialism**: This means being concerned with the consequences. It is an approach to morals which evaluates behaviour according to the end results. The behaviour will be morally right or wrong, depending on whether it produces a specified type of consequence.

  A form of consequentialism known as 'utilitarianism' was developed by the 16th-century philosopher, Jeremy Bentham. He argued that ethically right behaviour was to perform the action which resulted in a greatest general good.

  Using this theory in a modern business context, if a business meets the aims of most of the people affected by its decisions without disproportionately rejecting the aims of others, the actions of the business will comply with ethical standards.
- **Deontologicalism**: This requires a person to do the right thing regardless of the consequences. It is at odds with consequentialism ethics in that it says that the consequences can never be an appropriate justification for the act. In short, 'the end does not in itself justify the means'.

6 De George, R T, *A History of Business Ethics*, California: Santa Clara University, 2010.
7 Ibid.
8 Ibid.

The 16th-century German philosopher, Immanuel Kant, was a proponent of deontological ethics. Kant argued that morality required one to do one's duty regardless of the consequences. An action can only be morally right if that action was performed as a duty, not in expectation of a reward. Kant proposed a standard of morality which he referred to as the 'categorical imperative'. In other words, a principle must be obeyed without exception.

- **Virtues**: These are personal qualities that provide the basis for an individual to lead a good and noble life. Virtue ethics stresses the type of qualities that put us in a position to act morally. It focuses on a person's response to a moral problem.
- **Relativism**: This suggests that moral values are relative to a particular environment. It argues that moral values can differ from one culture to another, from one society to another, from one time to another; and even from one individual to another.

Other approaches introduced over the years included natural law and the ethics of caring (often associated with a feminist approach to ethics). An early philosophical discussion that arose concerned the moral status of corporations and whether one could appropriately use moral language to describe corporations, or whether the only proper objects of moral evaluation were human beings and their actions. This debate is still controversial, but most today do attribute actions and policies to corporations as well as to the individuals within them.[9]

Business ethicists added the tools by which the morality of new issues could be intelligently debated. For example, the debate on whether affirmative action is justifiable, and more fundamentally, what affirmative action means. Ethicists analysed workers' rights, the right to strike, the ethical status of comparable worth in the marketplace, what constitutes bribery and whistle blowing. They also looked at complicated issues like the moral status of leveraged buyouts, of outsourcing, of restructuring, and of corporate governance.[10]

The field has continued to develop as business has developed. The focus on multinational corporations has been broadened in the light of the globalisation of business to include ethical issues relating to international organisations, such as the World Trade Organization, and internet business.

4 Business ethics as a movement

Business ethics as a movement refers to the development of structures internal to a corporation that help it and its employees act ethically. The structures may include clear lines of responsibility, a corporate ethics code, an ethics training programme, an ombudsman or a corporate ethics officer, a help-line, a means of transmitting values within the business and maintaining a certain corporate culture.[11]

The past 50 years has seen a lot of legislation come from the United States (US) that has resulted in companies creating internal structures to deal with business ethics:[12]

- The *Civil Rights Act of 1964* prohibited discrimination in the US on the basis of race, colour, religion or national origin in public establishments connected to interstate commerce, as well as places of public accommodation and entertainment. Many corporations added equal opportunity offices to their human resources department to

9 De George, R T, *A History of Business Ethics*, California: Santa Clara University, 2010.
10 Ibid.
11 Ibid.
12 Ibid.

ensure compliance. This led to greater awareness of workers' rights in general, and of the corporate world's need to respect them.

- The *Occupational Safety and Health Act of 1970* enforced the need to take US workers' rights of health and safety at work seriously.
- The *Environmental Protection Act of 1970* forced US businesses to start internalising the costs of what had previously been considered external issues – such as the discharge of toxic wastes from factory smokestacks.
- The *Foreign Corrupt Practices Act of 1977* was passed following scandals involving bribery by US firms in other countries. The Act prohibited US companies from paying large sums of money to government officials of other countries to obtain special treatment.
- In 1978 General Motors and a group of other US companies adopted what are known as the *Sullivan Principles*, which governed their actions in South Africa. The signatories agreed that they would use affirmative action to try to undermine apartheid and also pressure the South African government for change. Adherence to the Principles was seen as a way by which American companies could ethically justify doing business in South Africa.
- The *1991 Federal Sentencing Guidelines for Corporations* provided incentives for US corporations to incorporate ethical structures within their organisations. If a company could show that it had taken appropriate measures to prevent and detect illegal and unethical behaviour, its sentence, if found guilty of illegal behaviour, would be reduced considerably. Appropriate measures included having a code of ethics or of conduct, a high-placed officer in charge of oversight, an ethics training programme, a monitoring and reporting system and an enforcement and response system. Fines that could reach up to $290 million could be reduced by up to 95%.
- The *Sarbanes-Oxley Act of 2002* was introduced because of scandals involving Enron, WorldCom, Arthur Andersen and other big US corporations. The Act requires that the chief executive officer (CEO) and chief financial officer (CFO) certify the fairness and accuracy of corporate financial statements (with criminal penalties for knowing violations) and a code of ethics for the corporation's senior financial officers.

Corporations have responded to these laws and pressures differently. The language of 'social responsibility' is still more commonly used than 'business ethics'. Self-monitoring compliance to a corporation's stated principles is becoming more common, and some companies have voluntarily adopted monitoring of their practices by independent auditors. The concept of a 'Triple Bottom Line', which involves financial, social and environmental corporate reporting, has been adopted by some companies. Other popular reporting mechanisms include corporate environmental sustainability reports and social audits, which also differ in what is reported and how this is done. Ethical investing is another aspect of the movement, and managers of ethical investment funds have begun proposing stockholder proposals to encourage more ethical behaviour on the part of corporations in which they own stock.[13]

The business-ethics movement is not confined to the United States. Other countries have adopted similar legislation and the United Nations (UN) has developed a voluntary *Global Compact for Corporations*. The UN Compact, which was endorsed by all governments,

13 De George, R T, *A History of Business Ethics*, California: Santa Clara University, 2010.

contains nine guiding principles that focus on human rights, labour standards, and the protection of the environment.

In South Africa, the *King IV Code™ on Corporate Governance for South Africa* (commonly known as King IV™) is a largely voluntary code that applies to all corporations to assist directors to comply with their legal duties through what is called 'corporate governance'. Corporate governance involves creating structures and processes with checks and balances. It raises the level of appropriate standards of conduct. Failure to meet a recognised standard of governance, even if not legislated, may in some cases render a board or individual director liable. The duties required of directors, including their moral duties, are dealt with in chapter 27: '*Corporations*' and chapter 28: '*Corporate governance and legislation to protect the financial system*'. Aspects of insider trading and money laundering are dealt with in chapter 28.

5 Ethics in a business context

Why should a company bother with ethics? Surely if a company's purpose is to maximise shareholder returns, then why would it sacrifice profits to other concerns like ethics – would this be a violation of its fiduciary responsibility? Some well-known economists like Milton Friedman have argued that corporate executives' responsibilities generally are to make as much money as possible. Friedman also said that, 'the only entities who can have responsibilities are individuals … A business cannot have responsibilities. So the question is, do corporate executives, provided they stay within the law, have responsibilities in their business activities other than to make as much money for their stockholders as possible? And my answer to that is, no, they do not.'[14]

As can be seen from Friedman, some believe that ethics have very little place in capitalism. Others may not go so far, but some say that one cannot run a successful business without compromising ethical values. These beliefs reinforce unethical behaviour, and sustain unethical business practices.[15]

Let us look at some of these beliefs, and work out why they are wrong:

- **Being ethical in business is stupid, because in the world of business either you win, or someone else beats you**: This belief claims that only your own interests matter in business. The belief is untrue because in fact business has a large social element, even small businesses. For example, a hawker is dependent on a range of stakeholders, including suppliers, customers, neighbouring hawkers, and the local community. If the hawker borrowed money to set up, then there is also a relationship with a creditor, partner or bank. There may even be employees. To survive and grow, the business needs to respect the interests of all those who together make up the social fabric of the business. What would happen if the business did not respect its obligations to suppliers, creditors or the community?
- **Only the toughest survive, and a smart business does whatever it takes to beat rivals**: This belief confuses the idea of competing, and the idea that it is justifiable to do anything in order to win. Beating opponents on the sports field is acceptable; but it is not acceptable to do anything to win a game. Unethical conduct not only breaks the rules but destroys the game itself. Without rules, the game becomes meaningless. For

14 Friedman, M, The Social Responsibility of Business is to Increase Its Profits, New York: *The New York Times Magazine* 1970, 173–178.

15 Rossouw, D and Van Vuuren, L, *Business Ethics* 6th edition, Cape Town: Oxford University Press Southern Africa (Pty) Ltd 2018.

example, doping in sport results in a lack of confidence in the athletes, reduces sponsorship, and threatens the existence of the sport itself. Similarly, businesses that bribe officials or commit fraud or human-rights abuses scare off investment, and result in stronger laws being passed that restrict the freedom of everyone. Lack of ethics can therefore result in greater restrictions being imposed on businesses. Further, the belief ignores the fact that in reality the most successful businesses co-operate with their rivals. Ethical decisions help them do this.

- **Nice guys come last; it is impossible to be ethical and successful in business**: This belief forgets that the performance of any business depends on its employees. Ethics are necessary to develop dedication and creativity in people. Employees who feel their interests are disrespected will do the minimum required, and the company will lose commitment. Similarly, relationships with suppliers and clients can be affected by the way they are treated. A company's good reputation is very valuable because it inspires trust from customers and stakeholders. Sometimes a good reputation is more valuable than the products or services being sold, and companies may be prepared to invest a lot of money to protect their image. Stakeholders and other people tend to avoid companies whose reputations are affected by corporate scandals.
- **Unethical conduct is not serious**: This belief is false because unethical conduct can often result in death. For example, where government officials are bribed to accept contracts, with the result that there is not enough money left to install water pipes, or connect electricity. Not all unethical conduct results directly in death; the result can still be severe. For example, where a company loses a lot of money because of unethical conduct by some employees, other staff may face retrenchment. Investors in the company may decide to move their money somewhere else, perhaps even another country. No one wants to invest money in a company (or country) where there is a high rate of fraud. This can result in fewer jobs, and less tax being paid to the government, resulting in the whole country being worse off.
- **Everyone does it; the opportunity to be corrupt is a perk**: This belief is based on the false notion that whatever most people do is excusable. But this is not true. Because many people may do something does not make it right. For example, many people may speed but that does not make speeding acceptable. The Bill of Rights in the Constitution envisages protection for minorities, in other words that the actions of the majority are sometimes unacceptable. When people accept unethical practices because they have become widespread, we lose our ability to make judgements about what is acceptable and what is not. We respect leaders who challenge widespread unethical practices. We do not respect corporate leaders who justify why their company was involved in corruption, child labour or environmental pollution. The fact that other companies may have also done the same thing is not an excuse.
- **Ethics does not matter because it does not make profit**: This belief is wrong because it confuses the need for profit with the view that profit is the only purpose of a business. If profit was the only motive, then every business would be selling only child pornography, slavery and illegal drugs. Businesses are only allowed to operate and make profit if they do not harm society. The belief forgets the motivations that people have when they participate in businesses – whether as customers, employees, or as part of the community.

The value of ethical behaviour is more than just avoiding scandal. 'Organisational reputation' is the way the character of an organisation is seen. It determines the type and extent of the relationships that stakeholders want with the organisation. When the actions of companies are seen as genuine, the organisation is creating trust in its relationships. Reputation therefore provides information about how a person or company will act and react. It allows people to know what to expect when dealing with that company. This helps reduce the risk of doing business with that company, and therefore reduces costs of finding out information. In short, a good reputation for ethical conduct can be as important as product quality and financial performance.[16]

Reputation has an influence on business at a country level. For example, some countries have reputations for low levels of corruption in governments, or high levels of transparency in business dealings. This makes those countries better trading partners resulting in greater investments. Since 1995, Transparency International publishes the Corruption Perceptions Index (CPI) annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. The CPI generally defines corruption as 'the misuse of public power for private benefit', and ranks 179 countries on a scale from 0 (highly corrupt) to 100 (very clean). On the 2021 list, South Africa got a score of 44, behind Senegal (67), Rwanda (54), Botswana (60), the United States (67), Japan (74), Australia (77) and Germany (80). Denmark was ranked first and least corrupt on the list, with a score of 88.[17]

Reputation can also affect businesses at a corporate level. Corporate reputation is defined as the collective opinion of stakeholders towards an organisation based on its past record over time.[18] A company's reputation affects its ability to sell product and services, attract investors, hire talented staff and to influence government. Organisations are increasingly defined by the way that they provide products and services. This means that ethical decisions should be made not only when times are good, but especially when the company is struggling.[19]

Investors, consumers and employees may judge a company by the ethical decisions it takes:[20]

- **Investor confidence**: In a global market, investors can choose to invest their money wherever they may get the best return. Knowing that a company is being managed in a fair, accountable, responsible and transparent way generates confidence that the company has good corporate governance. As shareholders invest their money in a company, so too must the directors ensure that the company is governed in a way that takes care of the interests of stakeholders. Directors must therefore set sound goals to protect the reputation of the company, and not do anything to embarrass shareholders. This requires honest and open communication of reliable information about the performance of the business.
- **Customer confidence**: Consumers vote with their money. If it takes five times more money to recruit a new customer as it does to keep an existing one, does it not make good sense to keep existing customers satisfied? If a company treats customers fairly and consistently, logic suggests that customers will make repeat purchases. A reputation for fairness may also spread in the community and attract new customers. Similarly, consumers may decide to boycott companies they believe to be lacking social or environmental responsibility or being unethical. The preferences of

16 Rossouw and Van Vuuren, 2018.
17 Source: https://www.transparency.org/en/cpi/2021, accessed 30 October 2022.
18 Rossouw and Van Vuuren, 2018.
19 Ibid.
20 Ibid.

consumers to support or avoid companies with unethical practices is known as 'ethical consumerism'.

- **Employee confidence**: Ethical behaviour plays a very important role in the reputation acquired by a person. For example, if employees have positive experiences over time with a manager, they are likely to have a good reputation and be regarded as trustworthy. Companies that make ethical decisions attract people with strong ethics, because people want to work in an environment that is consistent with their own views. Companies that demonstrate respect for employees and their families tend to be successful in attracting job applicants, who know that the company will treat them with respect and dignity. The company is also likely to have strong relationships between workers, opportunities to engage in meaningful work, encourage development and respect diversity.

Reputation also affects financial performance. Good ethics do not guarantee financial success. However, research shows that companies that take ethics seriously tend to perform better financially than those companies that do not. Studies show that:[21]

- Companies that are ranked highest on their records of social performance (charitable contributions, community outreach programmes, environmental performance, advancement of women and minorities) also had greater financial performance.
- Companies with codes of ethics did better financially than companies without these codes.
- Company reputation among employees contribute to efficiency, productivity and good financial returns.

6 Making ethical business decisions

Our economy and our society require business decisions to be made ethically. Businesses that do not act with ethical integrity run the risks of ruining their corporate reputations, breaking down trust relationships and alienating important stakeholders on which they rely for their survival.[22]

The following questions should be asked to work out if a decision is morally acceptable:[23]

- **Is it legal?** It is not difficult to find out whether something is legal or not. If people do not know, they can speak to an attorney or a legal expert to find out.
- **Does it meet company standards?** Company standards are usually set out as general company values, and in policies that deal with specific issues, such as purchasing rules, expense accounts, and company gifts. If it is not clear whether the conduct will conflict with company standards, you should discuss the decision with other employees and your supervisor or business partner to see how they interpret the company's ethical standards on the issue. There is no such thing as: 'If it is not forbidden then it is allowed.' If you have any doubts about discussing the decision with others, chances are that it is not ethical.
- **Is it fair to all stakeholders?** You must consider the effect that the decision may have on all the people affected by that decision. This involves identifying all the stakeholders and then putting yourself in their shoes to imagine how they would react.

21 Rossouw and Van Vuuren, 2018.
22 Ibid.
23 Ibid.

For example, making huge profits by selling an unsafe product is a decision that fails to consider the interests of the customer and of society in general.

- **Can it be disclosed?** Would you be comfortable explaining your decision to important people in your life or in public? What would you say if it was reported on TV? How would you respond if your parents asked you, or another important person in your life? If you would be embarrassed, then your decision does not appear to be ethical.

Ethical decision making should be part of daily routine business decisions. The following are examples of common business situations that raise ethical issues.[24]

- *'Don't tell anyone, but you can make money if you buy the shares early.'* Someone tells you that they have just made a big business deal with a company whose shares are traded on the stock exchange. The deal is going to be very good and the shares will increase in value as soon as the public finds out about the deal. If you buy shares now, you can make a lot of money when the share price goes up.

  Insider trading is stealing. It is not an example of taking advantage of a fair business opportunity. One person uses secret information that was obtained only because of their connection to someone important in the company. Knowing the price of the shares will increase when the information is made public, they quickly buy the shares of a person who does not have the information. The buyer has stolen the increase in value from the seller. That is why the practice is unethical and why it is illegal.
- *'Here are two free tickets to the big soccer final.'* Giving and receiving gifts: Remember the saying: *'There is no such thing as a free lunch.'* Is the gift a favour which one day will be called in?
- *'The new machine we are selling is designed to break down after two years.'* Conflict between commercial interests and social utility: Corporations like banks, health funds, telecommunications suppliers and the media are business organisations which must look after their business interests, but they also provide a special community need which should be considered in all their decisions.
- *'I can make sure my brother gets the job, and then I will make sure he gets a big salary increase and get promoted ahead of everyone else.'* Conflict of interest: This will arise when someone is in a position where they cannot fairly act in the interests of one party without prejudicing the interests of another party for whom they also act. For example, a manager in a company who gives an unfair advantage to one of his own relatives, in fact is being dishonest to the company, and unfair to all the other employees who may be more deserving.
- *'After I was elected to parliament I started my own company so that I could give myself all the profitable government contracts.'* It is corrupt and illegal to award business contracts to companies in which one has a financial interest. It is dishonest both to one's employer and to other stakeholders, including the public.
- *'Don't bother reading all the fine print in the contract – you can trust us.'* An agreement may comply with all the legal requirements for the court to recognise it as a contract but it may be grossly unfair and against good conscience. One of the parties may be taking grossly excessive advantage of the weakness of the other party. They may have included terms in the contract that are unfair and against good conscience and which impose an excessive burden on the other party.

24 Rossouw and Van Vuuren, 2018.

- *'I do not care if investors lose their money, I will just start up another company!'* Misuse of limited liability of a company: A company is a legal person, separate and distinct from its shareholders. The doctrine has often been abused with the result that creditors and employees have lost considerable amounts of money while the principals of the company have effectively lost nothing.
- *'If you pay cash I will not charge VAT.'* No one likes to pay tax and there is never total agreement with the way taxes are spent. Everyone pays tax in some form, even if it is only the value-added tax (VAT). Some people try to eliminate paying tax entirely by the use of various tax-avoidance schemes and overseas tax havens. Many methods of tax avoidance are both ethically wrong and illegal.

Sometimes in life the ethical issue at hand is obvious. For example, if a company sells products they should be safe to use. At other times, the ethical issue is more subtle. Businesses do not always face obvious moments in which executives can reach for their textbooks and ensure that the decision is ethical. For example, is it right that a business executive can get paid more than 250 times what the lowest paid worker in the company gets paid? Should workers get an annual bonus in a company where some people have been retrenched? Should a company buy T-shirts cheaper from China than those manufactured in South Africa? Should companies sell their products to other companies that cause pollution? Is a false CV in a job application such a big deal? Should bribes be paid if that is what it might take to get a big business deal? Should family members be appointed to influential positions? Should politicians own shares in companies that win big government contracts? Should consumers buy products from companies that manufacture weapons?

To answer these questions, and any other ethical question you may encounter, read through this chapter carefully and ask yourself these four questions: 'Is it legal? Does it meet company standards? Is it fair to all stakeholders? Can it be disclosed?'[25]

The duties and responsibilities of directors as required under the Companies Act[26] are dealt with in chapter 27 on corporations; the moral duties required of directors are dealt with in chapter 28 on corporate governance.

THIS CHAPTER IN ESSENCE

1 Ethics in business is the application of moral or ethical norms to business. Business ethical norms reflect the norms of each historical period. These norms change over time, and some behaviours that were once generally accepted have become objectionable. Over history, business has been involved in slavery, colonialism, and war, and each time has justified the profits it has made from those activities.

2 During the 1960s in the USA, the Civil Rights movement helped create the environmental movement, the rise of consumerism, and the criticism of multinational corporations. Corporations responded by developing the notion of social responsibility, which was the term used to describe activities that were beneficial to society and that somehow made up for some unethical or antisocial activity with which the company had been linked.

3 Business ethics as a movement refers to the development of structures internal to a corporation that help it and its employees act ethically. The structures may include clear lines of responsibility, a corporate ethics code, an ethics training programme, an ombudsman or a corporate ethics officer, a

25 Rossouw and Van Vuuren, 2018.
26 Companies Act 71 of 2008.

help-line, a means of transmitting values within the business and maintaining a certain corporate culture.

4 It is possible to run a successful business without compromising ethical values. The value of ethical behaviour is more than just avoiding scandal. Reputation helps reduce the risk of doing business with a company, and therefore reduces costs of finding out information. A good reputation for ethical conduct can be as important as product quality and financial performance. Investors, consumers and employees judge a company by the ethical decisions it takes.
5 Our economy and our society require business decisions to be made ethically. Businesses that do not act with ethical integrity run the risks of ruining their corporate reputations, breaking down trust relationships and alienating important stakeholders on which they rely for their survival.
6 The following questions should be asked to work out if a decision is morally acceptable: Is it legal? Does it meet company standards? Is it fair to all stakeholders? Can it be disclosed?
7 Ethical decision making should be part of routine business decisions every day.