

**Making Everything Easier!™**

# **Business Ethics**

## **FOR DUMMIES®**

### **Learn to:**

- Understand ethical issues facing small and large businesses

Identify how businesspeople can handle ethical dilemmas

Implement ethical conduct in the workplace

Examine ethical theories

**Norman E. Bowie**

*Professor Emeritus, former President of the Society for Business Ethics*

**Meg Schneider**

*Award-winning writer*



# *Business Ethics*

FOR

# DUMMIES®

by Norman E. Bowie and Meg Schneider



WILEY

Wiley Publishing, Inc.

## **Business Ethics For Dummies®**

Published by  
**Wiley Publishing, Inc.**  
111 River St.  
Hoboken, NJ 07030-5774  
[www.wiley.com](http://www.wiley.com)

Copyright © 2011 by Wiley Publishing, Inc., Indianapolis, Indiana

Published by Wiley Publishing, Inc., Indianapolis, Indiana

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

**Trademarks:** Wiley, the Wiley Publishing logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies Daily, The Fun and Easy Way, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc. and/or its affiliates in the United States and other countries, and may not be used without written permission. All other trademarks are the property of their respective owners. Wiley Publishing, Inc., is not associated with any product or vendor mentioned in this book.

**LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY:** THE PUBLISHER AND THE AUTHOR MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES OR PROMOTIONAL MATERIALS. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR EVERY SITUATION. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL SERVICES. IF PROFESSIONAL ASSISTANCE IS REQUIRED, THE SERVICES OF A COMPETENT PROFESSIONAL PERSON SHOULD BE SOUGHT. NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM. THE FACT THAT AN ORGANIZATION OR WEBSITE IS REFERRED TO IN THIS WORK AS A CITATION AND/OR A POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE AUTHOR OR THE PUBLISHER ENDORSES THE INFORMATION THE ORGANIZATION OR WEBSITE MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. FURTHER, READERS SHOULD BE AWARE THAT INTERNET WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

For technical support, please visit [www.wiley.com/techsupport](http://www.wiley.com/techsupport).

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

Library of Congress Control Number: 2011920890

ISBN: 978-0-470-60033-7

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2 1



***Business Ethics***

FOR

**DUMMIES<sup>®</sup>**

## About the Authors

**Norman E. Bowie** is the leading scholar in the application of Kant's moral philosophy to business; his book on that topic, *Business Ethics: A Kantian Perspective* (Wiley-Blackwell), has been translated into Chinese and Japanese. He is currently professor emeritus at the University of Minnesota and is the former Elmer L. Andersen Chair in Corporate Responsibility at the university. He has authored or edited 16 books and more than 75 articles on ethics and business. He also has been Dixons Professor of Business Ethics and Social Responsibility at the London Business School and a fellow at Harvard's Program in Ethics and the Professions. He has served as president of the Society for Business Ethics and the American Society for Value Inquiry, executive director of the American Philosophical Association, and associate editor of *Business Ethics Quarterly*. In 2009, he received the first lifetime achievement award in scholarship from the Society for Business Ethics.

Bowie is sharing his retirement with his wife Maureen in their homes on the Eastern Shore of Maryland and in New York. He has two sons and five grandchildren.

**Meg Schneider** is an award-winning writer with more than two decades of experience in television, radio and print journalism, and public relations. She has authored or coauthored 11 books, including *Stem Cells For Dummies* (Wiley), *Budget Weddings For Dummies* (Wiley), *COPD For Dummies* (Wiley), and *Making Millions For Dummies* (Wiley).

Her journalism honors include awards from the Iowa Associated Press Managing Editors, Women in Communications, the Maryland-Delaware-D.C. Press Association, Gannett, the New York State Associated Press, and the William Randolph Hearst Foundation.

A native of Iowa, Schneider now lives in upstate New York with two cats who would not recognize an ethic if you served it up on a silver platter with water-cress and béarnaise sauce.

# ***Dedication***

We dedicate this book to all those who have strived to define and measure ethical conduct for themselves, their loved ones, and society at large, and to all those who continue to explore the meaning of right and wrong and develop their own ethical values.

# *Acknowledgments*

Although our names appear on the cover, we can't take sole credit for this book. Many others, working diligently but largely unnoticed behind the scenes, played a critical role in bringing this book to you. In lieu of a publicly televised parade (which we found to be impractical), we humbly offer our heartfelt appreciation and thanks to the following people:

Our editors at Wiley — Stacy Kennedy, Chad Sievers, Natalie Harris, Amanda Langferman, and Megan Knoll — for their dedication, teamwork, and patience throughout this project.

Tom Howald, PhD, our technical reviewer, for helping ensure that we present the issues, theories, and interpretations here fairly and accurately.

Barb Doyen, our agent, for bringing us together to work on this book and for her uncanny knack of knowing exactly when to prod and encourage and when to let us just get on with our work.

Maureen Burns-Bowie, for her encouragement and support.

Mark Dixon, just for being there, like the sun, no matter what.

## **Publisher's Acknowledgments**

We're proud of this book; please send us your comments at <http://dummies.custhelp.com>. For other comments, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002.

Some of the people who helped bring this book to market include the following:

### ***Acquisitions, Editorial, and Media Development***

**Senior Project Editor:** Chad R. Sievers  
**Acquisitions Editor:** Stacy Kennedy  
**Copy Editors:** Megan Knoll, Amanda Langferman  
**Assistant Editor:** David Lutton  
**Technical Editor:** Thomas Howald, PhD  
**Editorial Manager:** Michelle Hacker  
**Editorial Assistant:** Rachelle Amick  
**Art Coordinator:** Alicia B. South  
**Cartoons:** Rich Tennant ([www.the5thwave.com](http://www.the5thwave.com))

### ***Composition Services***

**Project Coordinator:** Katie Crocker  
**Layout and Graphics:** Timothy C. Detrick,  
Joyce Haughey  
**Proofreaders:** Lauren Mandelbaum,  
Bonnie Mikkelson  
**Indexer:** Estalita Slivoskey  
**Special Help**  
Georgette Beatty

---

### **Publishing and Editorial for Consumer Dummies**

**Diane Graves Steele**, Vice President and Publisher, Consumer Dummies  
**Kristin Ferguson-Wagstaffe**, Product Development Director, Consumer Dummies  
**Ensley Eikenburg**, Associate Publisher, Travel  
**Kelly Regan**, Editorial Director, Travel

### **Publishing for Technology Dummies**

**Andy Cummings**, Vice President and Publisher, Dummies Technology/General User

### **Composition Services**

**Debbie Stailey**, Director of Composition Services



# Contents at a Glance

---

<b>Introduction .....</b>	<b>1</b>
<b><i>Part I: Discovering What Ethics Is and Where It Fits in Business .....</i></b>	<b>7</b>
Chapter 1: Putting Ethics to Work in Business .....	9
Chapter 2: Exploring Religion-Based Ethics .....	23
Chapter 3: Examining the Study of Ethics .....	37
<b><i>Part II: Exploring Common Business Ethics Issues.....</i></b>	<b>65</b>
Chapter 4: Identifying (And Handling) Conflicts of Interest.....	67
Chapter 5: Mixing Marketing and Ethics.....	79
Chapter 6: Understanding Public and Government Relations .....	101
Chapter 7: Spreading the Wealth: Executive Pay, Bonuses, and Incentives .....	123
Chapter 8: Managing People: Discrimination, Privacy, and Safety.....	139
<b><i>Part III: Looking at Corporate Citizenship and Social Responsibility.....</i></b>	<b>159</b>
Chapter 9: Identifying the Stakes and the Stakeholders .....	161
Chapter 10: Contributing to Charity.....	173
Chapter 11: Protecting the Environment .....	185
Chapter 12: Treating Competitors Fairly .....	203
<b><i>Part IV: Applying Business Ethics in the 21st Century.....</i></b>	<b>219</b>
Chapter 13: Establishing a Company's Ethical Culture.....	221
Chapter 14: Examining the Relationship between Ethics and Profits.....	245
Chapter 15: Cooking the Books: Accounting after Enron .....	263
Chapter 16: Gathering, Using, and Protecting Information .....	277
Chapter 17: Going Global: Ethical Issues for the Multinational Company.....	293

<b><i>Part V: The Part of Tens</i></b> .....	<b>307</b>
Chapter 18: Ten Ethical Issues That Most Businesses Face.....	309
Chapter 19: Ten Common Obstacles to Ethical Business Behavior.....	315
Chapter 20: Ten Ways Managers Can Keep Their Companies Ethical.....	323
Chapter 21: Ten Universal Ethical Guideposts .....	331
<b><i>Appendix: An Interfaith Declaration: A Code of Ethics on International Business for Christians, Muslims, and Jews</i></b> .....	<b>337</b>
<b><i>Index</i></b> .....	<b>343</b>

# Table of Contents

**Introduction** ..... 1

- About This Book ..... 1
- Conventions Used in This Book ..... 2
- What You're Not to Read ..... 2
- Foolish Assumptions ..... 3
- How This Book Is Organized ..... 3
  - Part I: Discovering What Ethics Is and Where It Fits in Business .... 4
  - Part II: Exploring Common Business Ethics Issues ..... 4
  - Part III: Looking at Corporate Citizenship and Social Responsibility ..... 4
  - Part IV: Applying Business Ethics in the 21st Century ..... 5
  - Part V: The Part of Tens ..... 5
- Icons Used in This Book ..... 5
- Where to Go from Here ..... 6

**Part I: Discovering What Ethics Is and Where It Fits in Business** ..... 7

**Chapter 1: Putting Ethics to Work in Business** ..... 9

- Defining the Purpose of Business and Business Ethics ..... 10
  - Deciding what a company's obligations are ..... 10
  - Discovering the factors that brought business ethics into the spotlight ..... 12
- Exploring the Difference between Legal and Ethical ..... 13
- Understanding Where Ethics Fits in Business ..... 14
  - Creating a moral organization ..... 15
  - Maintaining a company's integrity:
    - Avoiding the slippery slope ..... 20
    - Using ethics to increase profits ..... 21

**Chapter 2: Exploring Religion-Based Ethics** ..... 23

- Discovering the Roots of the Golden Rule ..... 24
  - Considering the pros and cons of the Golden Rule ..... 24
  - Applying the Golden Rule in business ..... 25
- Looking at Judeo-Christian Business Ethics ..... 26
  - Using the Ten Commandments as a starting point ..... 26
  - Considering biblical teachings about wealth ..... 27
  - Following your conscience: Natural law ..... 29

Exploring Muslim Business Ethics .....	29
Focusing on What Jews, Christians, and Muslims Have in Common.....	31
Considering the Business Ethics Rules of Other Religions .....	32
Buddhist ethics teachings .....	32
Hindu ethics teachings.....	33
Native American ethics teachings .....	34
Exploring Secular Ethics.....	34

### **Chapter 3: Examining the Study of Ethics ..... 37**

Zeroing In on Meaning and Morality: Metaethics.....	38
Considering whether morality is objective or subjective .....	38
Eyeing other views on metaethics.....	39
Justifying what's right and wrong.....	40
Exploring People's Beliefs about Morality: Descriptive Ethics .....	41
Putting Ethics into Practice: Normative Ethics .....	42
Emphasizing Moral Character through Virtue Ethics.....	43
Considering Aristotle's view of virtue.....	45
Understanding feminist ethics: The virtue of caring.....	46
Applying virtue ethics to business .....	47
Basing Ethical Decisions on Duty and Rights with Deontological Ethics.....	49
Understanding Kant's categorical imperative.....	49
Considering social contract theory.....	53
Holding onto natural rights .....	56
Letting Outcomes Determine What's Ethical with Consequential Ethics .....	58
Looking at egoism.....	59
Understanding utilitarianism .....	60
Checking out hedonism .....	61
Getting into welfarism .....	61
Spreading the Love with Situational Ethics .....	62
Choosing an Ethical Theory for Your Business.....	63

## **Part II: Exploring Common Business Ethics Issues ..... 65**

### **Chapter 4: Identifying (And Handling) Conflicts of Interest ..... 67**

Defining What Conflict of Interest Means .....	68
Dealing with Common Conflicts of Interest That May Cause Problems.....	69
Considering the profit motive .....	69
Helping friends and family.....	71
Keeping business ties together.....	72
Giving a quid, getting a quo.....	74

Eliminating the Risks Related to Conflicts of Interest.....	75
Going for transparency: Full disclosure.....	75
Planning ahead: Having an exit strategy.....	76
<b>Chapter 5: Mixing Marketing and Ethics . . . . .</b>	<b>79</b>
Understanding Ethical Issues in Marketing.....	80
Considering the ethical implications of stealth marketing .....	80
Educating consumers .....	84
Using (And Abusing) Psychology .....	85
Solving created problems .....	85
Playing to fears.....	86
Stroking your ego.....	87
Sending subliminal messages.....	89
Marketing to Vulnerable Populations .....	90
Selling malt liquor to inner-city African Americans .....	91
Extending credit to high-risk consumers.....	92
Marketing cigarettes to youths .....	93
Excluding Classes of Consumers .....	94
Factoring in Personal Responsibility .....	94
Combining the Elements of Ethical Marketing Practices .....	96
Protecting privacy .....	96
Disclosing key information .....	97
Avoiding deceptive practices.....	97
Allowing consumers to make their own choices .....	98
<b>Chapter 6: Understanding Public and Government Relations . . . . .</b>	<b>101</b>
Exploring the Purpose of Public Relations.....	102
Conducting Ethical Public Relations .....	103
Eyeing Common PR Pitfalls .....	105
Advocating versus lying and deceiving .....	105
Coping with a crisis .....	108
Understanding the Purpose of (And Problems with) Lobbying.....	112
Surveying the Obligations of Lobbyists and Government	
Affairs Officers.....	115
Playing fair .....	115
Being open .....	116
Considering the common good.....	117
Considering the Merits of PACs and Grassroots Campaigns.....	118
Setting up or joining a PAC.....	118
Generating grassroots campaigns .....	120
<b>Chapter 7: Spreading the Wealth: Executive Pay, Bonuses,</b>	
<b>and Incentives. . . . .</b>	<b>123</b>
Examining the Role of Greed in Executive Pay .....	123
Recognizing reasonable greed .....	124
Understanding the reasoning for (and against)	
big pay packages .....	126
Deciding whether executive pay is excessive.....	127

Exploring Bonuses and Incentives .....	130
Knowing when a bonus isn't really a bonus .....	131
Deciding which incentives elicit the best performance and behavior .....	132
Considering CEO Pay Packages That Work for Everyone .....	137

## **Chapter 8: Managing People: Discrimination, Privacy, and Safety ..... 139**

Building an Ethical Foundation for the Employer-Employee Relationship .....	140
Starting with four basic necessities .....	141
Identifying other key factors .....	142
Avoiding Discrimination .....	143
Understanding types of discrimination .....	144
Establishing and enforcing antidiscrimination policies .....	149
Poking into Privacy Issues .....	150
Protecting workers' privacy .....	150
Safeguarding customer information .....	152
Preserving the company's privacy .....	153
Ensuring Everyone's Safety .....	156

## **Part III: Looking at Corporate Citizenship and Social Responsibility ..... 159**

### **Chapter 9: Identifying the Stakes and the Stakeholders. .... 161**

Understanding Stakeholder Theory .....	162
Figuring out what "stakeholder" means .....	162
Determining corporate duties and obligations toward stakeholders .....	163
Practicing Stakeholder Management in a Company .....	164
Looking at common stakeholder groups .....	165
Engaging stakeholders to find out their needs and concerns .....	167
Prioritizing stakeholders .....	168
Using Stakeholder Theory to Improve a Company's Ethical Culture ...	171

### **Chapter 10: Contributing to Charity ..... 173**

Exploring the Connection between Ethics and Charitable Activities ...	174
Understanding the Company's Interests .....	174
Polishing the corporate image .....	175
Making employees and consumers feel good .....	176
Giving and Receiving: Practical Benefits of Philanthropic Acts .....	177
Looking at Some Philanthropic Pitfalls .....	179
Forcing corporate giving when stockholders and employees aren't onboard .....	179
Profiting too much from corporate giving .....	180

Benefitting too much from tax breaks.....	181
Falling victim to the law of unintended consequences.....	183
<b>Chapter 11: Protecting the Environment . . . . .</b>	<b>185</b>
Looking at Green Ethical Theories .....	186
Going Green as a Business Strategy .....	187
Creating a green business strategy .....	187
Defining sustainability.....	189
Weighing the trade-offs in going green .....	190
Examining Energy Issues .....	191
Understanding cap-and-trade: A license to pollute? .....	193
Taxing carbon emissions .....	194
Delving into alternative fuels.....	194
Cleaning Up Messes and Mistakes.....	197
Taking responsibility.....	197
Assuming the costs.....	198
Doing well by doing right.....	199
Exploring the Perils of Greenwashing.....	200
<b>Chapter 12: Treating Competitors Fairly . . . . .</b>	<b>203</b>
Identifying the Elements of Free Markets and Fair Competition.....	204
Making Sure Competition Is Fair: Antitrust Laws .....	205
Understanding U.S. antitrust laws .....	205
Exploring European antitrust laws .....	208
Buying Out the Competition .....	209
Making two companies into one .....	210
Protecting the public interest in utility monopolies .....	212
Examining Some Unfair Competition Practices .....	213
Keeping prices artificially high .....	213
Setting prices artificially low .....	216
Bundling products together .....	216
<b>Part IV: Applying Business Ethics in the 21st Century . . . . .</b>	<b>219</b>
<b>Chapter 13: Establishing a Company's Ethical Culture . . . . .</b>	<b>221</b>
Identifying the Company's Core Values.....	222
Looking at the workforce.....	223
Considering the customers .....	223
Thinking about stockholders .....	225
Dealing with competitors.....	227
Fitting in with the community.....	228
Developing an Effective Code of Ethics .....	229
Recognizing a good code of ethics .....	230
Crafting rules of conduct .....	230

Maintaining a Strong Ethical Culture .....	234
Generating the right incentives.....	235
Rewarding ethical behavior.....	236
Punishing unethical high performers.....	236
Eliminating the fear that sometimes impedes ethical decision making.....	237
Sending the Message from the Top Down.....	238
Mastering the Art of Apology.....	239
Making a sincere apology .....	239
Citing some good apology examples.....	240
Avoiding bad apologies.....	242

**Chapter 14: Examining the Relationship between Ethics and Profits ..... 245**

Understanding What the Data Shows (Or Doesn't Show).....	246
Figuring out what role ethics plays in customer buying patterns .....	246
Measuring ethical commitment and financial performance.....	247
Examining how ethical practices simplify business relationships .....	248
Seeing How Unethical Behavior Can Hurt a Company.....	249
Looking at the effects on reputation .....	250
Heading toward accounting scandal and bankruptcy .....	251
Exploring How Ethical Behavior Can Help a Company's Bottom Line .....	254
Putting a price on a company's good name .....	255
Building trust within an organization.....	255
Lowering transaction costs .....	257
Solving agency problems .....	258
Reducing prisoner dilemmas.....	261

**Chapter 15: Cooking the Books: Accounting after Enron ..... 263**

Looking at Some Accounting Tricks.....	264
Getting a grip on financial statements .....	264
Accelerating revenues.....	265
Manipulating expenses.....	266
Playing with pension plans.....	267
Understanding Ethical (And Unethical) Balance Sheet Accounting .....	268
Setting up subsidiaries.....	269
Creating synthetic leases.....	270
Making liabilities disappear (well, sort of).....	271
Selling Short (And Killing the Company?).....	273
Figuring Out a Path to Reform: The Sarbanes-Oxley Act (SOX) .....	274



**Chapter 16: Gathering, Using, and Protecting Information . . . . . 277**

Collecting Information about Your Competitors Legally (And Ethically) .....	278
Using public information .....	278
Relying on ethically questionable tactics .....	279
Using Insider Knowledge for Gain .....	282
Protecting a Company's Info: The Threat of Corporate Espionage .....	283
Identifying risks to a company's info .....	284
Being aware of foreign governments .....	287
Taking steps to protect your secrets .....	288
Respecting Intellectual Property Rights .....	289
Using patents, copyrights, and other protections .....	289
Playing fair with employees' ideas .....	291

**Chapter 17: Going Global: Ethical Issues for the  
Multinational Company . . . . . 293**

Understanding Fair Trade .....	294
Weighing the Effects of Outsourcing .....	295
Putting quality at risk .....	296
Lowering productivity .....	297
Getting embroiled in labor scandals .....	297
Respecting Cultural Differences .....	299
Considering Human Rights .....	300
Supporting workers' rights .....	302
Promoting environmental justice .....	303
Curbing corruption .....	304

**Part V: The Part of Tens . . . . . 307****Chapter 18: Ten Ethical Issues That Most Businesses Face . . . . . 309**

Cutting Costs versus Maintaining Quality and Safety .....	309
Overpromising and Underdelivering .....	310
Controlling the Market .....	310
Coping with Bad Publicity .....	311
Being Honest with Consumers .....	311
Being Honest with Employees .....	312
Being Honest with Stockholders .....	313
Keeping Accounting on the Up and Up .....	313
Lobbying for and against Regulations .....	314
Contributing to Political Campaigns .....	314