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1 INTRODUCING BUSINESS ETHICS

I don't believe ethical behaviour should depend on its paying. To suggest that doing right needs to be justified by its economic reward is amoral, a self-inflicted wound hugely damaging to corporate reputation … Doing right because it is right, not because it pays, needs to be the foundation of business.[1]

Sir Geoffrey Chandler, Former Director, Shell International (1922–2011)

Chapter Aims

This chapter will allow you:

- To gain a deeper understanding of morality and ethics
- To reflect on the role of ethics as a guide for human conduct
- To gain an understanding of mainstream ethical theories
- To clarify some basic ethical concepts
- To know how the current interest in business ethics emerged
- To provide arguments about the possible link between ethics and economic performance
- To understand why companies integrate ethics into their organizations
- To obtain an approach to business ethics and its scope
- To gain an understanding of the differences between normative and behavioural business ethics

Key Terms

Behavioural business ethics
Business ethics
Business ethics movement
Care ethics
Confucian ethics
Consequentialism
Contractualism
Corporate reputation
Deontologism
Discourse ethics
Ecological business ethics
Ethical dilemmas
Ethical improvements
Ethical issues
Ethical values
Ethical principles
Ethics
Human flourishing
Human goods
Individual values
Integrative social contracts theory
Kantianism
Morality
Moral character
Moral development
Moral experience
Moral judgements
Moral theology
Natural moral law
Normative business ethics
Rational ethics
Religious ethics
Rule ethics
Sentiment-based ethics
Social values
Societal business ethics
Spontaneous morality
Stoic ethics
Subjectivism
Theory of human rights
Universal principles
Utilitarianism
Virtues
Virtue ethics
Window dressing

Introductory Case
The Rise and Fall of Arthur Andersen[2]

Arthur Andersen LLP was once a respected firm known for its high standards in accounting, but it lost its way and later met its demise. In the 1990s—now with the name of Andersen Worldwide—it was one of the 'Big Five' accounting firms worldwide, operating in 84 countries.

Arthur Andersen co-founded the firm in 1913 and headed it until his death in 1947. Leonard Spacek, who succeeded him, continued the legacy and conducted the company's auditing services in the same way. Thus, both Andersen and Spacek ensured that the firm would follow a solid path by creating a strong culture of integrity.

In a speech delivered in 1932, Arthur Andersen revealed his ideals:

> If the confidence of the public in the integrity of accountants' reports is shaken, their value is gone. To preserve the integrity of his reports, the accountant must insist upon absolute independence of judgment and action. The necessity of preserving this position of independence indicates certain standards of conduct.

A story, often repeated in the early years of Arthur Andersen, tells of an executive from a local company. The executive asked Andersen to sign off on accounts that contained flawed accounting. Even though he knew that not attesting to the veracity of the accounts would cost him a major client, Andersen replied that he would not do so 'for all the money in America'. He is also quoted as having said that the accountant's responsibility was to investors, not to their clients. For many years, the motto of Andersen was 'Think straight, talk straight.' This was the principal driver for decision-making.

Arthur Andersen led the way in many accounting standards and, for ethical reasons, he severed his firm's links with several clients. For years the cornerstones of the firm were people management, quality, thought leadership and financial performance. In addition, values such as integrity, stewardship and public responsibility were of paramount importance.

In 1977, Arthur Andersen LLP and other accounting firms created Andersen Worldwide and in the following years looked to expand their activity with the growing and profitable business of consulting. They sought out opportunities from among their existing audit clients and began generating consultancy fee income. The consultancy practices increased to the point that the activity made up the bulk of the firm's revenues. However, it also compromised their auditing independence.

In 1989, owing to the growth of the consulting business in comparison with the accounting, auditing and tax practice, the firm split into Arthur Andersen and Andersen Consulting, two separate units. By the late 1990s, Andersen Consulting showed triple the per-share revenues of Arthur Andersen. However, the disparity in growth in the accounting and consulting arms led to many disputes between the two business units. This disharmony endured until August 2000, when the International Chamber of Commerce granted Andersen Consulting its independence from Arthur Andersen, but awarded US$1.2 billion in past payments to Arthur Andersen and declared that Andersen Consulting would no longer be able to use the Andersen name. Andersen Consulting changed its name to Accenture at the beginning of 2001.

In June 2001, the Securities and Exchange Commission (SEC), the US government agency responsible for enforcing the federal securities laws and regulating the security industry/stock market, issued a cease-and-desist order against Arthur Andersen regarding securities violations for its participation in a $1.7 billion accounting fraud.

A year later, on 15 June 2002, the Federal Court of Houston convicted Arthur Andersen of shredding documents related to its audit of Enron and of obstruction of justice. The case referred to David Duncan, the audit partner assigned to Enron by Arthur Andersen. In October 2001, he ordered his audit team in Houston and several other regional offices to destroy a large quantity of work documents over a period of three days.

The CEO, Joseph Berardino, notified the SEC about the activity and fired Duncan, even though he had reached his target of a 20 per cent increase in sales, and Andersen's Houston office was billing companies such as Enron US$1 million per week.

A few weeks after the trial, Arthur Andersen surrendered its licenses to practice as a Certified Public Accountant in the United States, pending the result of prosecution by the Department of Justice over the firm's handling of the auditing of Enron. The company lost almost all of its clients when it was indicted, with over 100 civil suits pending against it related to its audits of Enron and other companies. After the indictment, it began winding down its American operations. The firm shrank quickly: 28,000 employees in the United States and 85,000 worldwide lost their jobs. Three other major corporations for which Andersen issued unqualified or clean audit opinions—Global Crossing, Qwest and WorldCom—were being investigated by the SEC. In 2005, the US Supreme Court overturned the obstruction of justice verdict based on faulty jury instructions. However, it came too late, as there was nothing left of the company.

For Barbara L. Toffler, a former partner-in-charge of Andersen's Ethics and Responsible Business Practices consulting services who joined the firm in 1995, the symptoms of Andersen's 'fatal disease' were evident long before Enron. She felt that an organization that had once proudly dedicated itself to professional integrity had become corrupted by greed. She added that, in the latter stages of the existence of Andersen, money was seen as the great healer, and so the managers who emerged were those whose clear focus was only on raising the revenues. This was far from the early business philosophy of the first two leaders. When Leonard Spacek was running the firm, he was somehow able to convince his partners, time and time again, to sacrifice earnings for integrity.

From the beginning of 1959 and throughout the 1960s, the firm put a cap on partner compensation and allowed this to be reviewed only every three to five years. This was so that the rest of the money could flow down to the new partners and to the cost of developing the firm. Partners did not expect to enrich themselves in those days. They were content with a good career at a company with a good name.

According to Toffler, 'the four cornerstones of success' at Arthur Andersen—people management, quality, thought leadership and financial performance—were referred to colloquially as «three pebbles and a boulder». The boulder was financial performance. The rest, it seemed, was a joke'.[3]

Toffler also noted that, despite the new creed of keeping clients happy, the strong culture within Andersen persisted, although it had now lost its focus on integrity. At Arthur Andersen, tradition also dictated obedience to the partner. If upsetting the client was a bad thing, so was questioning your superior.

Questions

1. Why did the demise of Arthur Andersen occur? Could you identify any ethical motive?

2. Analyse the founding values of Arthur Andersen and how these evolved over time.
3. How would you describe the characters of Mr. Arthur Andersen and the later leaders of the firm?

Many firms are now more sensitive to ethics than in the past century and have taken measures to establish corporate ethics. Academia is also showing an increasing interest in ethics in business, management and organizations. Social pressure resulting from scandals but also greater awareness of the importance of ethics in business have contributed to this development.

The goal of this chapter is to introduce business ethics. Firstly, we try to clarify what ethics is about (Section A). Then, we describe the development and current situation of business ethics and its scope (Section B).

SECTION A. THE APPROACH TO ETHICS

Morality and Ethics

The root of ethics is the human experience of morality. When a business scandal appears on the front page of the *Financial Times*, readers usually blame those who have taken advantage of their position for personal enrichment, or who have been negligent in provoking an accident or abused others in some way. This makes it clear that human beings have a certain sense of morality and capacity for value judgements.

Language also bears witness to a certain spontaneous moral sense that permits us to evaluate human behaviour. Every language is full of words with moral connotations. We approve or criticize human behaviours, employing terms such as good and bad, right and wrong, fair and unfair, praiseworthy and blameworthy, responsible and irresponsible, rights and duties, licit and illicit, and so on. The list can be lengthened by the inclusion of value-laden words such as integrity, honesty, truthfulness, benevolence, friendship, kindness and gratitude.

Although having a capacity for moral discernment is inherent to the human condition, some people have a more cultivated moral sense than others, just as an ear for music or other human capabilities might be more or less developed.

Family, school, religion, cultural environment and study exert a significant influence on individual moral development. Another relevant factor is one's own behaviour followed by personal reflection, as ancient thinkers—particularly Aristotle—have pointed out. When an individual makes an effort to act well, his or her moral sensibility increases. In contrast, if one persistently avoids evaluating what is right, his or her moral sensitivity will decrease.

Ethics as a Rational Approach to Morality

Ethics proposes a rational and systematic approach to morality, which permits one to verify personal views and to evaluate the morality of human actions and behaviour.

Over time, philosophers have made a great effort to develop theories of ethics using a rational perspective. In addition, religions and moral theology—a systematic and rational development of religious faith—contain commendable precepts, which encourage moral virtues and provide guidelines to believers, as do some non-religious wisdom traditions.

The question regarding the relationship between rational ethics and religious ethics is not new. In Socrates' time (fifth century BCE), it was commonly accepted that moral obligation came from the gods. Socrates, despite being a religious man, defended the position that reason can understand what is morally good, and that gods only command what is good.[4] In other words, Socrates held that there are standards of goodness that can be known by human reason.

There are respected ethical systems built on religious faith and deep treatises on moral theology (rational development of faith for a moral behaviour). Both *religious ethics* and *moral theology* deserve consideration and, in a global world where religion is salient for many, familiarity with the basic aspects of religious ethics applied to business seems a necessity for those who manage businesses and organizations, especially in a global context.[5] However, religious ethics has limitations, particularly in the field of business ethics, if it is restricted to statements of faith. Religious ethics requires rational development if it is to be applied to any great variety of business problems.[6]

Ethical Theories: An Overview

Philosophical reflection has brought about several ethics theories. An overview of the historical development of ethical thought will help us to understand when and why different theories appeared, as well as their current relevance.

Historical Development of Ethical Thought

Employing reason as an approach to morality is a long tradition. Socrates (fifth century BCE), Plato and Aristotle were the first to reflect on morality and develop a 'rational ethics'. The word 'ethics' comes from the Greek *ethos*, meaning 'custom' or 'habit', something belonging to character, and the ethical thought of these philosophers was basically about *virtues* (good traits of character, denoting excellence) and their contribution to *human fulfilment*, often termed human flourishing. Stoic ethics,[7] another ancient ethical approach, was also centred on virtues. Eastern wisdom traditions, particularly Confucianism and Buddhism, also emphasize virtues.

In the early discussions of the subject, Socrates confronted the Sophists, who employed rhetoric to convince others to collaborate to their ends, whatever these might be, including unjust lawsuits. The Sophists taught their skills for a fee—often an exorbitant one—to enable others to succeed in the litigious social life of Athens. Socrates opposed this approach, proposing instead a rational search for moral truth, using arguments to identify what is really right and not merely profitable or beneficial in a particular sense.

In the Middle Ages, Thomas Aquinas[8] applied the Aristotelian approach to Christian ethics, emphasizing virtues connected with the so-called *natural moral law* or simply *natural law*. The latter was taken from Aristotle in its basic dimensions, and from other ancient philosophers, such as the Stoic philosopher Cicero.[9] Natural law is based on the observation of reality and intuitive knowledge of good and takes as first principle that 'good is to be done and pursued, and evil is to be avoided'.[10]

In the seventeenth and eighteenth centuries, setting virtues and goods aside, the main concern of moral philosophers was to establish *universal principles of morality* for determining which actions are ethically acceptable.

The perspective based on universal principles, known in philosophy as *modernity*, has been rejected by thinkers since the mid-nineteenth century. As an alternative, a heterogonous philosophical movement, termed *postmodernity*, appeared. In postmodernity, ethics focus on the internal moral experience of each individual in each particular situation. *Moral sentiments, values, caring or sense of responsibility for others* without being obliged by any norm, or a sense of personal responsibility for specific problems (ecology, welfare animal, racism, gender questions…), are some possible ways of seeing ethics in postmodernity. Although postmodernist ethical approaches have also received much criticism, they have contributed to increasing attention on the particularity of each situation and to focusing on specific problems with intensity.

Current Ethical Theories

Nowadays, different historical views of ethics remain. The Appendix of this chapter gives an overview of some of the theories that are relevant in business ethics. Here we can summarize these theories, grouping them into three categories:

1. *Theories based on principles*. Ethical principles are propositions taken as fundamental norms for directing behaviour. Principles serve as a starting point for deducing and inferring specific *norms or rules*. Both principles and norms express the *moral duty* to behave rightly. The starting point of these theories is certain rational evidence (an *a priori* of the reason) as a fundamental reference to evaluate whether or not an action is ethically acceptable. There are several theories based on principles, and among these there are two sub-groups: *deontologism*, based on duties, and *consequentialism*, based on consequences and their utility, are two mainstream perspectives often used as a foundation for business ethics. Among the former, *Kantianism* is probably the most popular approach in business ethics (see others in the Appendix), while *utilitarianism* is the most frequently cited consequentialist theory.

2. *Theories based on virtues*. Virtues are positive traits or qualities of character that denote excellence and give strength for good behaviour. There are several virtue-based ethical approaches (virtue ethics), often rooted in Socratic thinkers and particularly Aristotle. The most genuine neo-Aristotelian approach centres on how to live to attain the 'good life', which is central in Aristotle's ethics.[11] This is associated with the Greek word *eudaimonia*, often translated as 'human flourishing', a term related to human fulfilment or human excellence. *Eudaimonia* also means *happiness*; not in the sense of pleasure, but the joy that comes of acting honestly, helping others or being aware that one's work is contributing to the well-being of others. Only by taking this higher perspective, against the selfish concerns and interests of individual persons, can we turn to our desire for happiness.[12] Eastern wisdom, particularly Confucius[13] and Mencius, also had high regard for self-cultivation, which entails the education of character and the development of virtues.

   The evaluation of the human action does not come from principles, but from virtues. Thus, a just person is aware of acting with justice and a generous person with generosity. Very important in the Aristotelian tradition is *practical wisdom* or prudence (*phronesis*, Greek), a virtue which helps those who possess it to evaluate the morality of particular situations and even to develop a worldview.[14] Virtue ethicists often argue that many moral dilemmas that are intractable with rules might be solved by virtuous persons through practical wisdom.

3. *Theories grounded in moral sentiments*. This group of theories focuses on the agent's moral sentiments, intuition of good and feeling of responsibility in confronting particular circumstances, such as discrimination, lack of concern for the environment or situations of oppression. Ethics might be occasional moral impulse[15] or a more or less consolidated permanent sentiment. Currently, 'care ethics' is the most popular theory based on sentiments in business ethics, although it is sometimes presented as a particular type of virtue ethics, assuming that care is a stable disposition.

Ethics as Human Excellence

The existence of many ethical theories might produce perplexity and lead one to doubts over which theory to choose. This book takes the Aristotelian perspective, which understands ethics as a guide for *human flourishing or excellence*; that is, to develop one's most noble and characteristic human capacities. This perspective does not exclude the role of ethics in inspiring and evaluating human actions and takes advantage of some contribution of modern and postmodern ethics. We will return to this point in Chapter 2.

Excellence is related to what is truly good. When an apple tree produces excellent apples we call it a good apple tree, when a knife cuts well we term it a good knife. A human being is good, as a human being, when he or she possesses excellent qualities in that which is specifically human. If ethics is to evaluate and guide behaviours, it must be related to human excellence.

Ethics, understood as a guide for human excellence, takes as its starting point common moral experience and the rational inquiry into what is appropriate to develop the best of the human being. Most people would say that being responsible, generous, a good friend and a person of integrity are aspects of human excellence. Similarly, few would recognize human excellence in someone addicted to drugs or in a very egoistic person. The recognition of the presence or absence of human qualities such as these shows us that, generally, we can arrive at a common understanding of what human excellence is, at least in its fundamentals.

Seeking human flourishing, first of all, requires avoiding that which damages humanity, but this is not enough. An authentically ethical attitude leads one not to resign oneself to mediocrity but, rather, to seek that which is noblest in human nature. In this way, learning from the best ethical traditions, together with sincere dialogue with the people involved in each issue and especially with morally sensible people, can help the person discover human excellence to guide both his or her own conduct and that of others.

Clarification of Concepts

Ethics and Moral Judgements

Ethics should be distinguished from 'moral judgements'. Moral judgements are about particular situations or events occurring under specific circumstances, while ethics presents rational foundations for making sound moral judgements. Consider, for instance, the case of selling a children's toy that is decorated with toxic paint. A moral judgement would be: 'It is unfair to sell this product.' This is the result of the following implicit ethical reasoning: 'It is unfair to sell this product because it is unsafe, and people have the right to buy safe products.' Deliberation could follow regarding the idea that everyone has the right to avoid danger to health and that life is a universal human value deserving of respect. Ethics provides these kinds of grounds for making moral judgements.

Moral judgements sometimes arise from feelings of approval or rejection. Feelings can make one aware that something is wrong; however, they do not guarantee sound judgement. For instance, if you are a manager, your decision to fire somebody who has committed a serious breach of discipline maybe after several previous reprimands for the same, might provoke bitter feelings in you if you are sympathetic towards the individual. Nonetheless, from an ethical perspective, it would be the right thing to do.

Individual and Social Values

Ethics—and, more specifically, 'ethical values'—differ conceptually from personal and social values. 'Individual' values express what is appreciated by someone because of its moral, religious or aesthetic quality or its utility. Ethical values are based on moral qualities that contribute to human excellence:

for example, integrity, justice, truthfulness, gratitude, friendship and generosity. Ethical values provide a reference to contrast the subjective values of each individual.

Subjective values can share (objective) ethical values, or not. An honest person would hold quite different values from those of a serial embezzler. In spite of this evidence, some people adopt the position that only personal values or 'moral opinions' are relevant, putting aside any objective ethics. This position, called 'subjectivism', makes dialogue on morality problematic because of a lack of any objective ethical reference.

In practice, subjectivism is difficult to hold, especially when one is a victim of a clear abuse of power or other unfair treatment or is living under tyranny. In such situations, the victim generally proclaims a right to fair treatment. A subjectivist cannot coherently claim any objective right, other than the right to a personal opinion.

Social or cultural values are those that are widely shared by members of groups and communities or within a common cultural environment. Some personal values might be similar, or even identical, to the social values of groups or communities to which the individual belongs.

Ethics is distinct from cultural values. The latter concerns descriptions (what *is*) of a social group's beliefs and values, but not prescriptions (what *ought to be*) derived from a rational reflection. Some cultural values are fully compatible with ethical principles. Others are not: think of a social environment whose 'values' lead it to be tolerant of inhumane working conditions, corruption, a lack of respect for minority rights or to have scant concern for environmental issues.

SECTION B. WHAT IS BUSINESS ETHICS ABOUT?

Contemporary Development of Business Ethics

Ethics in business is scarcely new. In ancient religious traditions, one finds abundant references to some moral aspects of business. Nevertheless, in the past 200 years, influential streams of thought have viewed business as belonging exclusively to the economic domain and thus as an amoral activity. The well-known expression 'business is business' demonstrates this presumed amorality. On occasion, ethics has been reduced to subjective values, and consequently ethics has been regarded as wholly separate from business administration.[16]

In spite of this dominant view, a sense of morality has always persisted in many business people and executives. Many corporations have been built up within a strong ethical framework—HP, IBM or Medtronic, for example. Johnson & Johnson launched its now famous 'Credo', with a set of ethical values and principles for business conduct, in 1942. Other companies developed codes of conduct, one of which dates back to 1913.[17] Moreover, since at least the 1950s, many scholars and practitioners have taken an interest in social issues and corporate social responsibility (CSR).[18] Still, it was not until the 1970s that 'business ethics' became a strong movement, with an influence evident on both academics and business practitioners.[19] Since then, business ethics has been incorporated as an academic discipline in many universities and business schools, and numerous companies have introduced policies and practices of business ethics into their organizations.

At the beginning of the twenty-first century, a new demand for business ethics emerged due to a series of well-known business scandals. The financial crisis of 2008 and following years, and the subsequent fall of Lehman Brothers Holdings Inc. and the manipulation of the Libor—the London inter-bank lending rate upon which trillions of financial contracts rest—discovered in 2012, created new demands for ethics.

As the century advances, ethics-related demands of business involve concern for environmental issues such as global warming, for social and ethical problems associated with globalization—including poor working conditions in certain regions or countries and responsibility in the supply chain—and for problems with immigration and the integration of socially excluded groups, among others. In addition, certain voices advocate the development of a more humanistic management.[20]

In recent decades, increasing numbers of business people have come to appreciate ethical behaviour as a means to foster trust and good reputation—both essential elements for organizations and commerce. Moreover, since the turn of the current century, a renewed interest in *CSR* (Chapter 12, Section A) and *corporate accountability* (Chapter 12, Section B) on social and environmental issues has emerged. In some countries, reporting on non-financial impacts of business is even compulsory. In addition, two new concepts related to business ethics are becoming increasingly popular. One is *sustainability* (Chapter 12, Section A), which, simply put, refers to concern for future generations. The other involves considering corporations as a 'citizen' of the society. This leads to *corporate citizenship* (Chapter 12, Section A), a concept that introduces the idea that business is not merely an economic entity but also a part of the society and should contribute to a good society beyond that which is required by law. In this way, business enterprises do not appear as isolated groups whose only concern is making money, but as institutions trying to work hand-in-hand with citizens, governments and social organizations in order to build a good society, even to the global extent.

Furthermore, some companies are in tune with the United Nations' calls for sustainable development. With the Millennium Development Goals (target date of 2015) and then the Sustainable Development Goals (SDGs) for 2030 (Chapter 13, Section A), the United Nations has challenged governments, business corporations and other institutions to eradicate poverty and hunger, but it has also proposed goals more directly related to business such as decent work and economic growth, gender equality, responsible consumption and production, climate action and partnership. Beyond sustainability, another concept with strong ethical content is that of the *circular economy* (Chapter 13, Section A), which brings innovation in how to confront waste and obsolete products.

Are Profits and Ethics Related?

A frequently asked question is whether ethics leads to profits or whether ethics and profits are irreconcilable enemies. In colloquial terms, the question is: Does ethics pay? Some might feel uncomfortable with this interrogative, at least when profitability is presented as the only reason to be ethical. Actually, ethics focuses on what is good or bad from a moral perspective. It is not a mere instrument for profits but something with intrinsic worth. In this sense, Sir Geoffrey Chandler is eloquent in the quotation that headlines this chapter: 'Doing right because it is right, not because it pays, needs to be the foundation of business.' However, it is reasonable to inquire into the economic impact of good conduct. Thus, some will ask for the 'business case' of business ethics and CSR.

There are people who enthusiastically proclaim that 'Good ethics is good business'. Others, however, are more sceptical about the profitability of business ethics, or believe that ethics does not always pay. Finally, a third group holds that the 'ethics pays' argument might be valid if one takes a broader view and looks to the long-term effects.[21]

In the short term, unethical behaviours—such as abusive labour contracts, fraud, bribery and polluting—can lead to profits more readily than acting with fairness does. However, such conduct risks losing the trust in the business, aside from legal penalties. If a public scandal ensues, the loss of reputation can be dramatic; drastic action, as well as the investment of much time and money, might be necessary to recover the credibility and trust lost.

Trust is closely related to ethics[22]; it is created through conversation and dialogue and through various forms of behaviour by which individuals exercise their duties.[23] For instance, research shows that a salesperson's ethical behaviour leads to greater customer satisfaction and also to trust in and loyalty to the firm that the salesperson represents.[24] Within organizations, perceptions of a leader's integrity and fairness are key determinants of trust.[25] The conclusion is that ethical behaviours tend to generate trust, and trust is crucial to good business performance.[26]

Similarly, executives believe that corporate values—defined as 'a corporation's institutional standards of behaviour'—influence corporate reputation, responsible employee recruitment, customer loyalty, brand equity, product quality/innovation, supplier relationships and risk management. In addition, companies that report superior financial results emphasize such values.[27]

There are empirical studies seeking a correlation between ethics—often understood in terms of CSR—and corporate financial performance. Most researchers confirm the existence of a positive relationship between the two variables. However, there is, as yet, no definitive conclusion.[28] This could be due to differences in research methodology.[29]

One might argue that acting ethically could mean some additional cost or the loss of a contract. Investing in worker safety could lead to a loss in competitiveness if one's rivals fail to do likewise. Laws and their enforcement can help to prevent such situations but, if this is not the case, managers should do their best in the circumstances. Competent managers will seek to run businesses that are both ethical and profitable. With imagination, they can find alternative means of solving difficult problems.

Professor Lynn Sharp Paine of Harvard Business School affirms that 'ethics pays' is, in its own way, troubling as a credo for business leaders in the twenty-first century.[30] She notes that in the past few years many corporate initiatives, rather than seeking a direct profitability of ethics, have shown concern for strengthening corporate reputation or becoming more responsive to the needs and interests of their various constituencies.[31]

In some cases, ethics may not bring a financial return.[32] Then, managers need the courage to pay since, for a manager with integrity, profits cannot come at any price. Even when ethical behaviour does not pay off in economic terms, it pays off personally, because, in acting wrongly, an individual harms his or her own integrity, becoming worse as a human being. This was already suggested by Socrates more than 2,400 years ago in the words: 'Seeing then that there are these two evils, the doing injustice and the suffering injustice—and we affirm that to do injustice is a greater, and to suffer injustice a lesser evil.'[33] This is because an individual harms his or her own integrity by acting wrongly. This is not the case for suffering injustice. Similarly, in the Gospel, Jesus Christ said: 'For what shall it profit a man, if he shall gain the whole world, and lose his own soul?'[34]

In business, as in other areas of life, there can arise a tension between 'having more' (money, power or whatever) and 'being better' as a human being; that is, between external goods (what one owns) and internal goods (what one is). Facing this dualism, virtuous people resolve the tension in favour of internal goods.

Why Do Companies Engage in Business Ethics?

Numerous companies have institutionalized business ethics and are seeking to manage ethical and social issues in their organization. Facing this fact, many wonder if business ethics is a real commitment from companies or just a catchphrase or a public relations technique. Empirical research[35] shows that there are companies that show apparent ethical commitment, presumably due to external pressures, but do little to foster ethical behaviour within their organizations. Other companies, however, are active both in showing external commitment and in promoting ethical practices.

The motives for companies to engage in business ethics can be diverse and not only related to commitment or public relations. In reviewing why businesses introduce ethics into their organizations, several types of motive can be identified.

Recovering Image

When the company's image has been damaged by a business scandal, a common reaction is often to introduce ethical programmes, generally focused on compliance (Chapter 9, Section A). These include codes of ethics, employee training, ethics committees, direct lines for consultations, sanctions, and so on. This has been the case in firms such as Lockheed, Nike, Tyco, Boeing and many others after notorious scandals involving company misbehaviours.

Avoiding Risks

Since the 1960s, there have been those who argue that companies that do not take responsibility for their power will ultimately lose it,[36] and this is a risk. In recent decades, risks have increased due to tightening regulatory obligations, demands for transparency from investors and public opinion, and greater pressures—particularly on large corporations—from non-governmental organizations and the mass media.

Misbehaviours are often also illegal and therefore entail the risk of fines, which can be extremely costly. In some countries, having an accurate compliance system can lead to lower fines. The United States was a pioneer of these measures with the US Federal Sentencing Guidelines (a set of rules that federal judges almost invariably employ, at least as a starting point) at the beginning of the 1990s. This manual encouraged corporate ethics programmes by reducing the fine when a company is condemned for employee misbehaviour if it has implemented a *compliance programme* (Chapter 9, Section A). The European Union, among others, has since taken similar measures. Business ethics compliance and corporate values statements can contribute to business risk avoidance.

Building Corporate Reputation

Corporate reputation is valuable since it attracts customers to products, investors to securities and employees to jobs, therefore constituting a competitive advantage. Reputation is now an important strategic area for many companies and, as we have seen, ethics is deemed key to reputation. Ethical behaviour and good corporate governance build credibility and thereby corporate reputation and a competitive advantage.

Corporate concern for reputation has increased as a consequence of legal regulations (in some countries) or on a voluntary base, and companies show accountability about social, environmental and good governance issues. In addition, there are reputation indexes (especially for listed companies) and certifications on certain ethical standards. Investors use indexes, such as Dow Jones Sustainability World Indexes, the FTSE4Good Index and the STOXX Global ESG Leaders Index, among others, to screen for good corporate behaviour.

Enhancing Stakeholder Relationships

If ethical behaviour is linked to trust in relationships, business ethics will be particularly important in another strategic area: stakeholder relationships.[37] This can lead to the improvement of reciprocity, cooperation, loyalty and other trust-related behaviours of stakeholders. Corporate values concerned with legitimate stakeholder needs will foster strong and cooperative relationships and better performance.

The impact of business ethics can be particularly significant on employee morale and motivation, and—for recruitment—it serves to attract talent by evidence of the firm's sense of responsibility. Remuneration alone may not be enough to attract and retain good employees who are looking for meaningful work.

Acting with a Sense of Responsibility

This motive derives from the understanding that businesses need to do the right thing and contribute to the society to which they belong. While the previous reasons for engaging with business ethics relate exclusively to the profit motive, here there is a commitment to respond to moral duty. The first contribution of businesses to society is to avoid misbehaviours. However, the business contribution to the society is much more than avoiding the negative; it is positive contribution to a good society. Obviously, a sense of responsibility is not incompatible with other motives, such as maintaining good relations with stakeholders, enhancing reputation or avoiding risks.

Business Ethics and Its Scope

Business ethics is a specific field of ethics focused on business activity that is carried out by people working within business organizations or acting on behalf of their own respective business organization. Assuming ethics to be a guide for human excellence, 'business ethics' can be defined as *a guide for human excellence in business*.

The scope of business ethics includes four constitutive aspects (Figure 1.1):

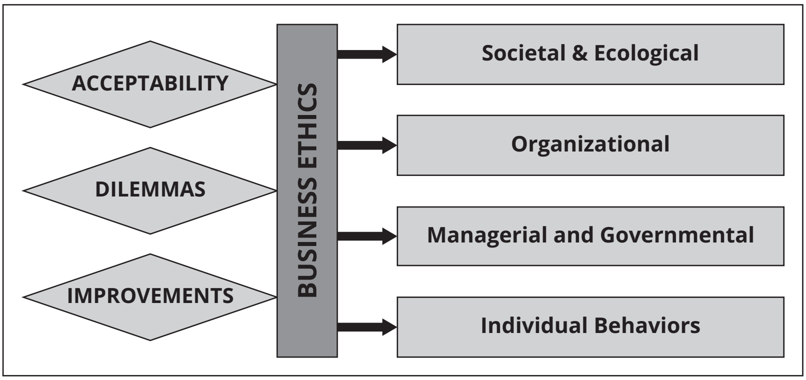

Figure 1.1 Constitutive aspects of Business Ethics

- *Individual ethical behaviour*. Persons act within or on behalf of organizations and their decisions, actions and behaviours are studied by business ethics. This constitutive aspect includes ethics in personal decision-making and personal responsibility and also the role of virtues in personal behaviour.
- *Managerial and corporate governmental ethics*. This relates to the manager's work and corporate governance activity. Entrepreneurial ethics can also be included in this constitutive element of business ethics. Managers direct, coordinate, motivate and supervise people to perform actions for a common purpose. Corporate governance approves major strategies and supervises the company's senior management. Decisions and leadership of senior managers and directors have an influence on the behaviour of other managers and employees and on the organization as a whole.
- *Organizational ethics*. This refers to the ethical dimension of the business organization. It includes strategies, objectives, structure, systems, procedures, rules, and so on. As a result of several factors, a certain culture is developed within the organization. Organizational ethics gives guidelines on how to foster human excellence within organizations and to promote ethical cultures.
- *Societal and ecological ethics*. This covers the vast field of the business–society relationship and business impact on the environment. It includes business and government relationships; the relations of business with civil society; the ecological and social responsibilities of business in both local and global contexts; corporate community involvement; and the contribution of business to sustainable development.

Unacceptable Ethical Issues, Dilemmas and Improvements

The ethical evaluations of some cases generally do not pose special difficulties, while other situations can be more problematic.[38] In evaluating, we can distinguish between 'unacceptable ethical issues' and 'dilemmas'. *Unacceptable ethical* issues are generally well defined and are often forbidden by the law; for example, stealing company products, committing commercial fraud or dumping toxic waste into a river.

Ethical dilemmas, in contrast, are situations in which the decision-maker faces a difficult choice with no clear-cut right answer. An example could be how to decide whether to accept a job that would provide greater income to support one's family but would be very demanding in terms of travel abroad, leaving less time for the children. A dilemma can also arise when one has to make a choice between two or more alternatives, each of which seems ethically unacceptable, or when one has to address two conflicting duties.

The vision of ethics as a guide for human excellence is not reduced to evaluating whether or not an action is ethically acceptable or to solving dilemmas. Any human action has a moral dimension since it affects people for good or bad and provides a service or damage. In this sense, business ethics also inspire possible *improvements*. For instance, when selling a product, treating customers with fairness is acceptable as a minimum standard, but a higher standard is possible; willingness and kindness in attending to them,

and putting oneself in their shoes to understand their needs in order to provide the best possible service.
From this perspective, ethics gives guidelines for:

- *Determining the acceptability of actions*. Here ethics distinguishes between acceptable and unacceptable actions. Frequently, forbidden actions receive specific names (fraud, bribery, embezzlement, and so on).
- *Solving ethical dilemmas*. These dilemmas emerge when it is not easy to identify and characterize what is ethically correct in a specific context.
- *Inspiring ethical improvements*. This stems from considering how to attain ethical excellence in a particular situation.

These guidelines apply to the different constitutive aspects of business ethics (Figure 1.1).

Normative and Behavioural Business Ethics

A last, but no less important, distinction is that ethics, as already noted, is normative in character; that is to say, it proposes standards and virtues for good behaviour, and the same is true of business ethics. Another way of focusing on business ethics is by studying the authentic behaviour of people in the business context from the ethical perspective. There are countless studies about the real behaviour of people in organizations.[39] They focus on different psychological, organizational or situational factors that can influence behaviour or decision-making.[40] These studies are *behavioural descriptions* of what occurs within a certain sample, but they do not reveal anything about whether such behaviour is right or wrong. The aim of normative ethics, in contrast, is not *describing* what people are doing but *prescribing* what they ought to do.

Normative business ethics is based on reasonable arguments with internal logics. On its part, behavioural business ethics is an experimental science and, therefore, based on empirical data that is interpreted by explanatory hypotheses. Experimentally tested hypotheses are considered acceptable until anomalies or empirical data emerges that cannot be satisfactorily explained. New samples or the observation of new phenomena not explicable by the current hypotheses can call these into question, and other hypotheses have to be offered. This would be the case of an experiment to study the correlation of age or gender in lying. The hypothesis that the elderly and women are more likely to tell the truth than the young or men might be confirmed for one sample but appear irrelevant with another.

In spite of its limitations, behavioural business ethics serves to tell what actually happens in firms, but it would be a great error to adopt its findings (descriptions of what people do) as a normative guide (prescription of what people should do).

The distinction between normative and behavioural business ethics does not mean a radical separation with no connection at all. Normative business ethics can be used to formulate hypotheses or to evaluate codes of conduct or real behaviours in a certain collective, while behavioural business ethics can help to reflect on the effectiveness of the corporate guidelines implemented to favour right behaviour.

Case Study
The Enron Collapse[41]

Enron was established in 1985 as a traditional pipeline company distributing natural gas. Energy liberalization in the United States offered a new business scenario, in which Enron, under the leadership of its CEO Kenneth (Ken) Lay, took on a new role.

Seeing the opportunity, Enron decided to turn itself into a commodity trader, buying and selling natural gas. As deregulation caused disparities in gas prices, Enron guaranteed long-term supply to its clients at a fixed price.

By 1995, Enron was the leading company in its sector. Soon after, it expanded on the intermediary services and began to act as a broker. The mediation risks previously borne by the clients, who took out insurance against interest rate movements, unpaid credits, meteorological conditions, and so on, came to be assumed by Enron. The company relied directly on buyers and sellers and demanded quick access to credit markets; and as Enron rarely had liquidity, it was obliged to turn to the banks. Enron introduced the technique called 'mark-to-market accounting', an accounting practice permitted by American law that involves recording the value of an asset to reflect its current market levels. Enron applied this practice to contracts made on long-term bases—for as long as 20 years.

Company turnover rose so impressively that, at the end of 2000, it became one of the largest firms in North America in terms of sales. *Fortune* magazine named Enron 'America's Most Innovative Company' for five consecutive years between 1996 and 2000. However, behind this facade, its debt was also soaring, disproportionately to its equity. Since it had such high debt levels, it could hardly maintain a good credit rating.

In 1997, Enron began to explore new markets, as it believed that the solution to its debt problem was to invest abroad in power plants, Internet companies, fibre optics, and so on, but many of these investments did not live up to expectation. The lack of success of the new businesses and the negative development of energy markets affected profits and growth, making it difficult to maintain a good credit rating and share price.

It was then that some Enron senior managers decided to introduce a number of dubious practices. The operations were headed by Andrew Fastow, Enron's executive vice president and CFO. Another relevant contributor was Jeffrey (Jeff) K. Skilling, promoted to president and chief operating officer of Enron during 1997. Andrew Fastow set up a complex network of supposedly independent partnerships known as 'special purpose entities' (SPEs) to hedge the value of certain assets, to take on some current and future debts and to carry out transactions—especially asset sales—in a very covert way. These SPEs were small and turned out to number some 3,000, while the Enron participation was less than 3 per cent. Fastow and certain of his acquaintances provided most of the capital to create these entities.

Enron avoided their consolidation through a loophole in the accounting rules, whereby consolidation is not required if there is an outside party with an equity investment in the SPE equal to 3 per cent of its total assets, seeking capital from relatives, friends and acquaintances. In addition, with heavy pressure to find new contracts, especially at the end of each trimester, the strain on the traders became almost unbearable.

In August 2000, the company reached its zenith, a share price of US$90.56. However, the bursting of the internet bubble in mid-2000 led Enron's stock price to tumble. Once 2001 began, company shares on Wall Street fell quickly from US$85 to US$30, when rumours emerged of fraudulent accounting techniques endorsed by its auditing company, the then-prestigious firm Arthur Andersen. In addition, other insistent murmurs of bribery and influence peddling to obtain contracts in some developing countries began to grow louder.

In October 2001, Enron revealed third-quarter losses of US$618 million and announced the reduction in shareholder equity to US$1.2 billion. This pushed the share price lower. Finally, the real situation came to light and Enron's stock fell to around US$0.30. Unable to repay the loans, Enron went to court to file for bankruptcy protection and, on 2 December 2001, Enron assets were liquidated and its last remaining business sold. Before bankruptcy, Enron had employed approximately 20,000 staff.

The firm had a detailed 64-page 'Code of Ethics' and a set of corporate values that included respect, integrity, communication and excellence. However, in practice, the supreme value was the bottom line, and the climate in Enron—according to some former employees—was characterized by arrogance, greed, corruption and ruthlessness.

Ken Lay sold large amounts of company shares between September and October 2001, while giving talks to his employees encouraging them to buy stock, explaining that the decline in prices should be seen as an opportunity for the future.

After the fall of Enron and an intense public debate, the Sarbanes–Oxley Act was promulgated in the United States in 2002. The law contains stringent measures to avoid situations such as those of Enron and was the most significant change in US security legislation since the early 1930s. Although Sarbanes–Oxley introduces more transparency in corporate accounting practices, some complain that compliance with it is very costly for companies, especially small and medium-sized enterprises.

Ken Lay was found guilty of fraud, as were Fastow, Skilling and other former Enron executives. On 5 July 2006, Lay died suddenly of a heart attack in his Colorado residence while waiting for his sentencing date. He had earlier recognized his responsibility for Enron's demise; he also admitted that the company had taken excessive risks and that their internal controls had failed.

Questions

1. What do you think about the 'mark-to-market accounting' and the 'SPE'? Are they abusive? If so, why?

2. Do you think that the strategies of the CFO, Andrew Fastow, to maintain the credit rating and the share price are morally correct?
3. Who is responsible for the Enron scandal? Top executives, the board of directors, auditors, banks, lawyers, analysts …?
4. Do you think that the Enron scandal was due exclusively to insufficiencies of US law?
5. What would the 'Corporate Values' and 'Code of Ethics' of Enron have needed to be effective?

Summary

- Humans have a spontaneous sense of morality by which they discern good from bad, but some people have a more cultivated moral sense than others.
- Ethics is a rational and systematic development of morality. Ethics is related to concepts like moral judgements, personal and social values; however, it is conceptually different from all of them.
- Ethical thought was born in ancient Greece and different perspectives and theories have been developed over time. Going back to its origin, in this book we understand ethics as a guide for human excellence and define business ethics as human excellence in business organizations. We also could say that business ethics is human quality in business.
- In the 1970s, a strong business ethics movement emerged. Academics have been developing business ethics as a discipline, and a considerable number of practitioners have formally incorporated ethics into organizations.
- The introduction of ethical practices and programmes in business organizations can be triggered by several reasons, including (1) recovering image after business scandals; (2) avoiding the risk of losing image or being sued for misconduct; (3) building corporate reputation; (4) enhancing stakeholder relationships; and (5) acting with a sense of responsibility.
- In practice, some companies show a real commitment and genuine ethical behaviour, while others use ethics as 'window dressing'. However, a growing number of companies agree that, to a greater or lesser extent, ethics must be taken into account.
- The scope of business ethics includes ethics in (1) persons acting within the organization; (2) ethics in managerial and governmental activities; (3) organizational ethics; and (4) societal and ecological business ethics.
- Business ethics deals with three courses of action: (1) ethical issues—unacceptable actions; (2) dilemmas—situations in which it is not clear what is ethically acceptable; and (3) ethical improvements—situations in which human excellence can be enhanced.

- Behavioural business ethics deals with what people do in business organizations by using positive science. It is descriptive in nature, not prescriptive as is normative business ethics. The latter, as noted, is based on rational reflection.

Appendix
Mainstream Ethical Theories for Business Ethics

Several theories have been proposed since the mid-1970s to provide a foundation for modern business ethics. A deep discussion of the theories in each category is beyond the scope of this book; however, we will provide a short presentation of the most common approaches.

Kantianism and Other Deontologisms

As its basic principle, Kantian's ethics takes the 'categorical imperative', presented to the human reason as the basis for universal moral law. Three different formulations are possible. According to Kant, the third formulation of the categorical imperative is the most comprehensive and establishes that each subject must will maxims that could become universal norms. In Kant's words, this formulation entails the idea of the will of every rational being as a universally legislating will.[42] For instance, stealing is not allowed since the proposition 'it is permissible to steal' would be impossible to universalize for civilized persons living together. From the categorical imperative, a number of actions are morally forbidden. Thus, for Kant, theft, lying or deception of any kind would be forbidden under any interpretation and in any circumstance. For the same reason, other actions, such as keeping promises, are universally required.

This formulation entails the idea that the moral agent possesses autonomy (literally, self-law-giving). That means that the agent's actions are limited only by moral law, which one writes oneself with impartiality and universal criteria. This sense of autonomy is quite different from the common understanding of the concept before Kant. Aristotle and, above all, Aquinas understand that human reason exercises its autonomy not in making moral law but in discovering moral law in rational human nature. Ultimately God is the moral legislator through human nature. In contrast, for Kant, God is no longer the moral legislator; it is human autonomy that gives rise to moral law, a moral law apparently applicable to everybody.

In Kantian ethics, there are only formal statements (called 'maxims') to guide actions. It does not consider values nor virtues nor consequences, focusing instead on the action and on the agent's goodwill regarding fulfilment of moral law. Goodwill is developed by acting rationally in accordance with the principles laid down by the categorical imperative.

For Kant, the only pure or legitimate reason to fulfil a duty is for the sake of the duty itself, not for any further requirement. The only answer to the question 'Why should I do my duty?' is 'Because it is your duty'. Consequently, in the Kantian view, behaviours deserve moral esteem if they are carried out for the sake of moral duty. In business, for instance, a behaviour aimed at obtaining reputation would deserve no moral esteem at all. According to Kant, we should act neither for the sake of an action's consequences nor out of natural inclinations moderated by virtues. Thus, to refrain from lying because you want to gain the trust of your counterparty is not moral; one does not lie because not lying is one's duty, the right thing to do.

The Kantian approach has been employed in business ethics as a basis for ethical reasoning in decision-making[43] and even as a foundation for textbooks for both business and management ethics.[44]

Other deontologisms include natural law in two versions, realistic—essentially based on Aquinas[45]—and rationalistic, one of which is the John Locke's *theory of natural rights*.[46] Locke believed that there are self-evident rights innate in every human individual. Deontologist theories also include *common-sense intuitionism*, or prima-facie duties, proposed by the Scottish philosopher W. David Ross,[47] which takes a set of self-evident principles of morality as a starting point.

Personalism is a stream of thought covering several approaches; it stresses the centrality of the human person, as an individual and relational being, and human dignity as the key ethical reference. In a certain sense, Kant is also a personalist author if we consider the second formulation of his categorical imperative—'Act in such a way that you treat humanity, whether in your own person or in the person of any other, always as an end and never simply as a means.'[48] This entails the requirement of *unconditional respect* for each human individual. In the twentieth century, other streams of thought that differ from categorical imperative have also emphasized human dignity.[49]

Contractualism proposes norms based on a certain consensus within a society, assuming a hypothetical social contract that glues the members of a society together. One specific example of contractualism is Dunfee and Donalson's *Integrative Social Contracts Theory*.[50] This approach distinguishes two types of norm: *hypernorms* arising from a universal consensus (universal declarations, religions, and so on) and *authentic norms* taken from particular communities. The norm should be harmonized, with priority given to hypernorms.

Instead of presenting substantive norms, some theories propose procedures to reach a social consensus to resolve social conflicts. Among the most notable examples of *proceduralism* are Rawls' *Theory of Justice*,[51] based on rules of fairness understood as impartiality, and *discourse ethics*, based on the theory of the communicative action proposed by the German philosopher Jürgen Habermas.[52]

Criticisms of deontologist approaches include, among others, (1) the irrelevance of the moral character of the agent; (2) its lack of consideration for consequences of the action; (3) its formalism—abstract statements with no specific content about what one should do in practice; and (4) the rigidity of the universal norms and their lack of attention to the singularity of each particular situation. Proceduralism can be seen as a political approach to reaching consensus rather than a genuine ethical theory connected with morality.

Utilitarianism

This theory is also based on a principle—the utilitarian principle. This states that an action is right when it achieves 'the greatest happiness of the greatest number'[53] on calculation of the consequences of the action. Those who defend the theory hold that the utilitarian principle has stronger intuitive grounding than Kant's reliance on reason. In addition, utilitarianism can better explain why certain actions are right or wrong than Kantianism.[54]

The main proponents of utilitarianism were Jeremy Bentham (1748–1832) and John Stuart Mill (1806–73). According to the former, who took a completely hedonistic evaluation of the consequences of the action, a right action is one that equals the greatest sum of pleasure and the least sum of pain in those affected by the action.[55] Mill also followed a utilitarian principle but presented a wider vision about the goods to be evaluated. In Mill's view, higher pleasures are associated with the mind and lower ones with the body. Each of these must be considered and evaluated.[56]

An example of applying utilitarianism would be a manager who invites himself to visit a sick collaborator in the hospital the following weekend, sacrificing other plans. His decision to do so is not out of any sense of friendship, neighbourly love or notion of duty, but for reasons of utilitarian calculation. The action will be right if the cumulative satisfaction of everybody involved in this action (the collaborator, his or her relatives and the manager him or herself) is higher after the visit, and all end up feeling better. The net gain for the manager can be calculated by offsetting the opportunity cost of renouncing his other plans for the weekend against his satisfaction and other benefits.

In utilitarianism, a right decision comes down to a question of evaluating pleasure and pain and then making an arithmetical calculation before applying the utilitarian principle. This presents the serious difficulty of measuring items as subjective, as pleasure and pain. In the face of this difficulty, and to make utilitarianism easier to apply, a different approach was suggested, consisting of replacing the analysis of each act (*act utilitarianism*) with a set of rules (*rule utilitarianism*) for actions that never favour general happiness (for example, slavery or child labour).

Some scholars and practitioners support and apply utilitarianism in business ethics.[57] One strength of this theory is its concern for the social benefits of business activity and its consideration of the negative social consequences of managerial decisions.[58] However, utilitarianism is problematic for several reasons.

One flaw is inherent to the theory itself, that in many situations it may not be easy to measure all the consequences of an action. The problem is even greater in calculating the subsequent consequences deriving from the action's primary effect. Thus, the immediate effect of a lay-off is unemployment, but this can cause personal depression, family problems, demoralization of people within the organization, and so on.

A second criticism is about the criterion employed for evaluating consequences, which are usually pleasure, satisfaction or something useful rather than human goods consistent with human flourishing (Chapter 2, Section B).

Another significant problem with utilitarianism is its lack of respect for minorities and lack of consideration for human rights when respect for them cannot bring about happiness for the majority. While a deontological approach is in favour of human rights, applying utilitarian theory in a society that is racist in its majority, for instance, could lead to violations of human rights of an ethnic minority, if this led to the greatest happiness (satisfaction) for the greatest number.[59]

In a business context, utilitarianism poses difficult questions. How should we evaluate right action regarding safety in the workplace? How can we compare the value of human life with economic costs? Should we sell substandard or unsafe products to a relatively small number of ignorant people for the sake of profits that would benefit the whole organization and thus serve many people? Should we lie or provide misleading information if doing so benefits a large majority?

Another form of consequentialism is so-called *ethical egoism* or *enlightened self-interest*. This proposes acting in self-interest by being attentive to both immediate and mediate consequences. In the business context, this means doing good, not for being intrinsically worthy but exclusively because doing good will have good (utilitarian) consequences for oneself.

Virtue Ethics

In the past few decades, virtue ethics has grown in popularity,[60] and several scholars have presented neo-Aristotelian approaches to business ethics.[61] Along with other moral virtues, which shape the moral character, virtue ethics generally stresses practical wisdom, the virtue of good discernment that reinforces practical reason[62] (Section A) in making sound moral judgements in particular situations and in determining the 'golden mean' of each virtue, placing it between two extreme vices (one by excess and another by defect (Chapter 2, Section B).

Virtue ethics is now widely present in business ethics and many scholars adopt it, although from different standpoints.[63] In contrast with Aristotelian tradition, whose main reference is human flourishing (Section A), other virtue ethics approaches define virtues based on what the individual's community applauds as admirable. Robert Solomon seems to be in favour of this 'contextual virtue ethics' by defining virtue as 'a pervasive trait of character that allows one to "fit into" a particular society and excel in it'.[64] The problem is that some 'virtues' that are accepted as such in a particular society would be dubious examples of human excellence in another.

Alasdair MacIntyre is one of the most influential neo-Aristotelian ethicists, mainly through his book, *After Virtue*,[65] where he emphasizes the centrality of virtues in ethics. He is critical of the lack of room for virtues in business and considers business ethics irrelevant (seeing it as conceived to apply modern moral theories to business decision-making). However, some scholars[66] have successfully developed a MacIntyrean approach to organizational ethics.

Some criticize virtue ethics for its lack of universally available principles for allowing all to make moral judgements. Although a fully virtuous person, one possessing a high degree of practical wisdom (Chapter 2, Section B), may not need any principle to act correctly, could the same be said of others who are less virtuous? An answer may be that maxims and principles derived from accumulated practical wisdom over time can help these people. In addition, advice from wise people can aid in situations of doubt.

Another objection to the Aristotelian approach would be that the concept of the good life will differ depending on the person, so rendering it an inappropriate ethical reference point. Aristotelians would probably respond that, although each individual can undoubtedly have a particular view of the good life, there are some views of human flourishing that are common to every human being (justice, honesty, generosity, and so on).

Care Ethics

Care ethics is a sentiment-based approach, although some include it within virtue ethics since its moral reference is seen as a permanent disposition of care for others. This disposition is what moral good is about. In the early days, scholars termed it 'feminist ethics' since it began within feminist circles in the late 1970s and early 1980s.[67] The starting point was contrasting male and female moral attitudes, assuming that the former emphasize justice and rights, while the latter focus on care and on how to respond to other people's needs, which favours interpersonal relationships.

Currently, care ethics is presented as an ethical theory for all, not only for women. It takes connectedness with others and the obligation to respond to the specific situations of people with needs and the vulnerable as the central features.

Proponents of care ethics are generally critical of views of ethics focused on solving 'ethical problems' by applying universal and abstract rules, which can breed moral blindness or indifference to facing people with needs.[68] The key question for them is the recognition of people with needs and vulnerability, and personal engagement in a network of interdependences with others, which demands responsibility for promoting well-being. Some work has been carried out in applying care ethics to specific business issues, but further research is still necessary for developing 'caring organizations'.[69]

One objection to care ethics is why care is presented as being in opposition to justice. Are care and justice opposites or are they perhaps complementary?

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