

# Toward an Applied Meaning for Ethics in Business

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**ABSTRACT.** The field of business ethics has been active for several decades, but it has yet to develop a generally agreed upon applied ethical perspective for the discipline. Academics in business disciplines have developed useful science-based models explaining why business people behave ethically but without a generally accepted definition of ethical behavior. Academics in moral philosophy have attempted to formulate what they believe ethical behavior is, but many seem to ignore or reject the basic mission of business. The purpose of this article is to offer one view of ethics in business that accommodates the mission of business. This purpose is achieved by reviewing the mission of ethics in applied disciplines like business and melding it into the mission of business in capitalistic societies.

**KEY WORDS:** business ethics, business mission, ethics, exchange of values, mission of ethics

The field of business ethics has been active for several decades, but it has yet to develop a generally agreed upon body of knowledge or an applied ethical perspective for the discipline. What exists are valuable contributions from business academics focusing on the science of ethical performance and valuable contributions from philosophers focusing on moral philosophy without a true nexus between the two. Academics in business disciplines have developed useful science-based models of how and why business people behave ethically or unethically using personally perceived views of what the concept “ethical” means (e.g., see Ferrell et al., 1989; Goolsby and Hunt, 1992; Hunt and Vitell, 1986, 1993; Jones, 1991; Trevino, 1986). These empirically based models lack a universally agreed on definition of “ethical.” Alternatively, academics in moral philosophy have attempted to formulate what they believe is and is not ethical behavior in business,

but many seem to ignore or reject the basic mission of business. The purpose of this article is to present one approach, with input from both disciplines that business academics and business practitioners can accept and apply to their work.

## **Rationale for the scientific approach/ normative approach gap**

Philosophy has a long tradition of separation of the empirical “is” of science from the prescriptive “ought” of moral philosophy. Basically, moral philosophy limits the use of empirical “facts” to the description of ethical situations. Then, logic, usually based on a specific philosophical belief (e.g., Kantian Deontology), is used to “solve” that ethical situation. A 1994 discussion of the connection between the empirical side of business and its normative ethics provides an introduction for this discussion. The April issue of the *Business Ethics Quarterly* for that year contained several important articles on the topic. One of the articles by Weaver and Trevino outlined “three conceptions” of the normative/positive link in business ethics (p. 129). Tom Donaldson, in another of these articles, stated a preference for the “symbiosis” conception from the Weaver and Trevino analysis. He states “We must recognize that research in business ethics, or in any field of applied ethics, requires both normative and empirical insight, even if we refuse to adulterate the distinctive logic of each (p. 165).”

The symbiotic links between moral philosophical approaches and business approaches suggested by Donaldson (1994) and described by Weaver and Trevino (1994) are likely to provide only limited help in advising practical business behavior. In describing this approach Weaver and Trevino state:

“In sum, symbiotic collaboration allows each approach to business ethics to benefit from the scrutiny of the other while remaining grounded in its own distinct assumptions, theories and methods” (p. 133).

There is even some belief that it is inappropriate for moral philosophy to offer any advice to applied disciplines. Beauchamp (1991) states it this way: “Philosophical theories are, of course, about morality, but they are primarily attempts to understand or unify morality, not attempts to develop moral applications or to specify the practical commitments of moral principles. ... From this perspective, there is no reason to think that a developed moral philosophy such as utilitarianism, Kantianism, Aristotelianism, right-based theories, and so forth, would give us any edge or advantage in specifying rules or fashioning policies. ... There are, then, several forms of skepticism about applied ethics and whether it expresses what moral philosophy is good for” (p. 37). Nevertheless, it does seem appropriate to adopt some of the core ideas from moral philosophy in order to (symbiotically) help guide business practice, even if the complete systems these philosophies propose are inappropriate in the practical and applied world of business.

The effects of the scientific approach/normative approach gap can be observed in the instructional literature for discipline of business ethics. While there are a multitude of books on business ethics, there is no unified body of knowledge on the subject. Each book seems to take its own approach, with many of the “textbooks” being a collection of readings and cases used to illustrate certain points. Within other business disciplines, as well as the physical sciences, social sciences, and the humanities, there are usually many textbooks on the subject that are very similar and deliver the mostly unified body of knowledge in their areas. There is nothing similar in business ethics. That fact is particularly disturbing because the academic literature on the topic has been filled with articles on the subject for well over two decades. For example, the *Journal of Business Ethics* began publishing in 1982, and many of the top journals in the business disciplines contained articles on the topic in the 1970s.

This article offers one approach for defining the concept of “ethical” within the applied domain of business that can help bridge the scientific approach/normative approach gap. A logical beginning point is

to establish what moral philosophy and business are attempting to achieve – the mission of ethics and the mission of business. The discussion begins by defining the fundamental purpose or mission of ethics. Then, it asks how pursuing of the fundamental purpose of business can still achieve the mission of ethics. The discussion continues with a proposed solution. This solution is probably not the only approach, but simply *an* approach. Other approaches should be solicited as well, and the primary test for all approaches is if they can produce practical managerial advice that accommodates both the mission of business and the mission of ethics.

### The mission of ethics

The idea that ethics has a mission is not new. Philosophers like Aristotle, Mill, Hobbes, and, in the twentieth century, Warnock suggest that the purpose of ethics is to provide an environment that allows people to live a more structured, happy life than would exist without ethics (Warnock, 1971). Ethics cannot make the lives of people perfect in the empirical world that exists, but ethics can prevent, or decrease the amount of, certain harms. What the discipline of business ethics can and must do is to provide an approach for improving the lives of the stakeholders who, with business, live in an imperfect, and sometimes harmful, world.

Ethics is often defined, at least in part, as acting to prevent a substantial harm to others when an individual or group has an opportunity to do so for their own benefit. Velasquez puts it this way, “Moral standards deal with matters that we think can seriously injure or seriously benefit human beings” (Velasquez, 2002, p. 10). Beauchamp states, “Moral judgments ... function to condemn human plans or activities ... that make things ‘go badly’ (for others); and ... morality functions to limit selfish actions that cause harm to others” (Beauchamp, 1982, pp. 25–26). By definition, stakeholders represent the groups most subject to potential benefit or harm by business. For the purpose of this article, stakeholders include employees, customers, other supply-chain companies, stockholders (as a special group), and communities in which the company operates. All groups are directly impacted by business, and all are candidates for potential benefit and/or harm.

Traditionally, managers are supposed to operate as agents for stockholders, and the mission of stockholders can be considered the mission of business, which is why they are considered a special group (e.g., see Friedman, 1970).

A useful analogy for describing the mission of ethics is the comparison of human life to the life of animals in the jungle, where reasoned ethics probably does not exist. Animals in the wild face conditions in which power, in many forms (i.e., strength, speed, cunning), as well as chance, dictate the length and quality of their lives. With the higher intelligence of humans, the possibility for the abuse of power is much more of an issue than for an animal's daily life in the jungle. Thus, the mission of ethics is to ameliorate the abusive use of power and reduce the negative impact of chance in the everyday lives of humans. Realistically, improving the human condition of stakeholders within the naturally occurring "human jungle" provides an appropriate test for business ethics.

What would an ethical society do to help establish an environment for improving the lives of its people? Such a society would certainly want to establish an efficient and effective economic system. A system that produces the opportunity for greater economic welfare is very important in facilitating a well-structured, happy life for the citizens of that society. It is clearly not the only thing that an ethical society would do, but it is one factor of particular importance to business and business ethics. However, since few, if any, human social systems work perfectly, an ethical society would also want to minimize the abuses of the "imperfect" economic system selected, while still attempting to maintain the creativity, efficiency, and effectiveness of that system. This society would also expect the companies operating in that system to behave in a manner that minimizes the abusive use of power and reasonably assists their stakeholders with the negative impact of chance.

### **The business mission and relations with stakeholders**

Businesses are chartered and controlled by society with the purpose of improving the economic welfare of its citizens in an efficient and effective manner. Given its pervasiveness throughout the industrialized

world, capitalism is accepted and assumed to be fundamental for the rest of this analysis. Thus, the assumed mission for business for the purposes of this analysis is the mission of capitalistic firms. The question for business ethics then becomes how to make the practice of capitalism more ethical (i.e., less potentially harmful to its stakeholders).

Thus, an important issue for this analysis is understanding the nature of business interaction with stakeholders. Each stakeholder group interacts freely with business, and it does so with the expectation of gaining value from the relationship. Customers buy the products or services of the firm because they believe that those products/services will provide more value to them than the money and other value they have to give. Similarly, employees work for business because they expect to gain more value than they give; suppliers also expect more from the relationship than they give; and communities seek relationships with business that produce a net gain as well. On the other side of these relationships, business also expects to gain more from their relationships with stakeholders than they give. Because each party to these exchanges values things differently, it is possible *and usual* that both business and its stakeholders gain from the relationships. This positive-sum outcome is the basis for the benefits that an economic system like capitalism provides society – the win-win situation.

To avoid confusion, it is important that this concept be differentiated from the "Stakeholder Theory of the Modern Corporation" by Freeman (2002). Freeman's theory changes the relationships between the corporation and its stakeholders to one that is managed with the purpose of making all stakeholders equal. For comparison, this approach accepts the naturally occurring relationships between the organization and its stakeholders and is an attempt to make those relationships more ethical.

While participation in the exchanges between business and its stakeholders represents a free choice by each party, there is often a large difference between the power of business and the power of the stakeholders in these exchanges. By itself, this power difference is neither bad nor good, but when the difference exists, there is a chance of abuse. Recall that the abusive use of power and chance was used to describe the "jungle-like" environment that ethics is intended to limit. Thus, it is at this interface between

the stakeholders and business that the application of business ethics is most appropriate.

The power differential between business and its stakeholders can arise for a number of reasons. For example, one party to the relationship may have limited options while the other party has several. In that case, the party with limited options has less power. A very important basis for a difference in power is a difference in knowledge and/or information. This power differential may historically be the most abused of all power differences. Differences in financial and/or market access strength are often a basis for power differences in supply-chains, as well as, other stakeholder relationships. It is impossible to identify the entire basis for power differences because they often depend on the characteristics of the relationship based on a particular history, time and circumstance, but it is important to note that they exist.

The tenets developed thus far for a relationship between business and ethics mandate that, (1) business must be allowed to operate efficiently and effectively, (2) business ethics must operate to reduce potential harm to stakeholders, and (3) stakeholders are sometimes at a disadvantage when exchanging values with business. The mission of business and ethics must be achieved from within the business system supported by society and within the laws of that society. Further, in an ideal situation, both the business mission and the mission of ethics would provide support for the other.

### **A proposed meaning for “ethics” in business ethics**

Since (1) ethics is defined in terms of harm or potential harm to an individual or group, (2) the people most likely to be harmed by business are defined as stakeholders, and (3) stakeholders operate in free exchanges with business, then an appropriate approach for defining “ethics” in business ethics should come from examining the *ethics of exchange* between these groups. The requirements for establishing and maintaining an ethical exchange between business and its stakeholders should satisfy both the business mission and the ethics mission, as well as fit within the normal expectations of society. Stakeholders and business must both continue to have free

choice, but weaknesses of stakeholders must not be exploited.

What is the “ethics of exchange” between participants who are not coerced? Here some (symbiotic?) help can be derived from philosophy. In his *Nicomachean Ethics*, Aristotle discusses the theory of exchange within the treatment of his virtue of justice (NE 1132b21–1133b30). Aristotle’s approach is used by Koehn in an article entitled “Toward an Ethic of Exchange” (1992). In it she states “that the practice of exchange properly understood reveals itself to be inherently, ethically good” (p. 342). Aristotle’s arguments tie an ethics of exchange to the intuitively and philosophically satisfying concepts of fairness and justice. Kohen’s evaluation provides some support for using an ethics of exchange as a basis for business ethics. However, it should be noted that all exchanges are not ethical. Child pornography and slave trading are examples of unethical exchanges. Prudent societies should and do limit such exchanges. Further, business operates at the will of society and must obey its dictates in order to exist. However, the freedom of choice should be maintained in most exchange relationships.

Unfortunately, Aristotle’s zero-sum reasoning found in his ideas of proportionality (e.g., NE 1133a31–33) is inappropriate for business exchanges where positive-sum outcomes and different views on value by participants occur naturally. Another useful concept comes from Immanuel Kant. Borrowing from Kant, two things seem to fill the requirement for ethics in exchange – attempts at fairness and basic respect for people. Kant uses these two concepts as fundamental to the meaning of “being ethical” (e.g., see Bowie, 1999). However, these Kantian ideas are recommended without his formula-based approach for applying them. Further, Kant demands that people obey ethical prescriptions because it is their duty to do so – his categorical imperative. However, business exchange relationships with stakeholders focus on hypothetical imperatives – if you want “B” you must do “A.” The ethical prescriptions suggested in this article focus on making the normal hypothetical imperatives with stakeholders more ethical. Thus, only the fundamental concepts of fairness and respect are borrowed from Kant.

The concepts of fairness and respect in exchange relationships can be used to address the current ethical issues most discussed in business ethics

literature. Using the table of contents from several “textbooks” on business ethics and business and society, the following list of concerns in stakeholder relationships with business was captured. Top management has a special fiduciary relationship with stockholders – that of principal to agent. Cases of CEO and top management excesses are easily evaluated in terms of fairness and respect for stockholders. For customers, issues related to products, advertising, personal selling, and customer safety can also be evaluated in terms of fairness and respect in exchange. For employees, fairness and respect in exchange can be used to evaluate issues like discrimination, promotion, due process, employment at will, and employment safety. Relationship building with suppliers and communities can easily be analyzed using fairness and respect in exchange. Finally, some environmental issues can be evaluated using fairness and respect in exchange. Firms can make accommodations for the environment in the everyday flow of business, when doing so adds to business efficiency. However, many of the concerns about the environment will have to be dictated by society through its legal system, much as it is today in most industrially advanced countries. An elaboration of this and similar topics appear in a latter section entitled “Societal Desires Beyond Economic Welfare.”

### *Fairness*

The two concepts for defining ethics in business are discussed in sequence beginning with “fairness.” Each transaction with a stakeholder group is expected to be a fair process, and business policies, procedures, and rules should be in place to facilitate fair treatment. Borrowing from MacIntyre (1988), each situation, with its individual history, time, and context, must be considered, in much the same manner that common law considers them, to determine the most ethical approach. That is, each set of conflicting claims about fairness must be weighed by business and unbiased judgments made about their validity. These processes undoubtedly produce what is called “imperfect procedural justice” (e.g., Beauchamp, 1991, pp. 357–358), but that type of justice is often the best that can be achieved and exists in most legal systems. The complexities

and unknowns of the empirical world limit business to the best that they can do.

Distributive justice is another form of fairness. It is concerned with the total distribution of value from all transactions with a stakeholder group. There are several candidates for a principle of distributive justice, including but not limited to (1) each an equal share; (2) each person according to individual need; (3) each person according to that person’s rights; (4) each person according to individual effort; (5) each person according to societal contribution; (6) each person according to merit; and (7) each person according to free market exchanges (Beauchamp, 1991, p. 348). No single approach seems to work for all groups and institutions, or even for a single group or institution in every situation. Borrowing an example from Robert Solomon’s discussion of Aristotelian ethics to provide an analogy: “Being a ‘tough negotiator’ is a virtue in business but not in babysitting” (1992, p. 327). The analogy is: an appropriate distributive justice in one setting, say a free market allocation in business, may not always be appropriate in another, say a family. However, in many cases there does seem to be a fundamental approach that is relevant for a single group or institution most of the time. This approach is basic to the mission and values of that group or institution and helps define how it intends to operate in most situations. This fundamental approach becomes the default position when special situations do not exist. For business, that fundamental approach is suggested to be libertarianism. Other professions and organizations can, and sometimes should, chose different approaches.

The selection of libertarianism as the fundamental form of distributive justice for business is based on its previously discussed relationships with stakeholders. The libertarian approach focuses on numbers 6 and especially 7 in the preceding list of approaches to distributive justice. The selection of merit applies to the business desire for efficiency and effectiveness in attaining its objectives. Merit must be used within the system to attain maximum effectiveness, and it would seem to flow naturally from applying the concept of fairness to relationships with employees. The idea of free market exchanges (number 7) is fundamental to libertarianism. For example, under Robert Nozick’s view of libertarianism, “The following inductive definition would exhaustively

cover the subject of justice in holdings. (1) A person who acquires a holding in accordance with the principle of justice in acquisition is entitled to that holding. (2) A person who acquires a holding in accordance with the principle of justice in transfer, from someone else entitled to the holding, is entitled to the holding. (3) No one is entitled to a holding except by (repeated) applications of 1 and 2” (p. 151). It also implies that each individual or group is responsible for making the best exchange of values that they can. Since the relationship between business and its stakeholders is one of free market exchanges, the selection of libertarianism should not be surprising. Further, any attempt to impose another fundamental definition would likely destroy the efficiency and effectiveness of business, reduce the positive-sum outcomes from these relationships, and fundamentally change business into something remarkably different than it is today. The writings of Robert Nozick on “Distributive Justice” and especially “The Entitlement Theory” (1974, pp. 149–164) describe this approach.

While libertarianism is a natural fundamental choice for business, other approaches may sometimes be warranted, subject to the history, time, and context of the situation. For example, society through its legal system can grant rights to individuals or groups, and businesses must follow the laws of society. Thus, businesses may need to use a distribution based on rights – number 3 from the preceding list. An example is the “Americans with Disabilities Act” of 1990 which grants a collection of rights to disabled Americans, and business must honor those rights. Different situations may call for other selections from the list. The impact and importance of society’s wishes for its economic system is further discussed in a latter section.

### *Respect for people*

The other dimension of treating stakeholders ethically is respect. Respect for individuals simply means treating people as human beings and not *just* a means to an end for the company. Certainly, each stakeholder group is a means to an end for a business, and as noted earlier, the company is a means to an end for its stakeholders in their mutual exchange of values. The requirement of respect means

understanding that stakeholders are also humans. It means maintaining a degree of empathy for the stakeholder and adapting to the special human needs that they have. Respect means treating each stakeholder group as you would like to be treated if you were on the other side of the exchange. In an article by Murphy and Enderle entitled “Managerial Ethical Leadership: Examples do Matter,” they review the behaviors of four former CEOs (1995). One of their summary observations is that “these persons seem to have an uncommon concern for how their decisions affect others...Furthermore, this characteristic enhanced their respective firms’ ability to create worker participation, customer commitment, community involvement, and other desired stakeholder actions” (p. 125).

It should be emphasized that fairness and respect are applied from within the capitalistic business system. For example, if business must cut its work force to meet business needs, then the requirements of fairness and respect for people apply to the process involved in the layoff, and not to the question of whether the layoff should occur. Accepting the two goals of fairness and respect means that the mindset for every business should be to continue doing those things necessary to satisfy the mission of business, but do so with fairness and respect in their relations with stakeholders. Ideally, these two requirements should be an active and daily part of the workplace environment and a significant part of the culture and core values of the company.

### *Synthesizing and summarizing the approach*

Implementing these requirements should satisfy the mission of ethics by reducing the abusive use of power. Stakeholders should be no worse off in their normal relations with business and in some (perhaps many) cases, they should be much better off. Further, with these requirements, businesses should be better able to satisfy the expectations of the society that licensed them. That is, business should be able to provide for the economic welfare of society in an efficient and effective manner but also find a way of doing so that would minimize the negative impact on the citizens of that society. Of course, like all social systems, capitalism is operated by humans with all of their strengths and frailties. On occasion, some

people will not behave ethically, and society must be ready to correct serious unethical behavior through legal constraints and directives. In fact, much of consumer protection legislation, labor law, contract law, and shareholder protection legislation, such as the recent Sarbanes-Oxley in the U.S., has occurred because of ethical abuses by businesses.

The concepts of fairness and respect have a direct meaning for describing how business should treat stakeholders, but it also implies other activities. Business should treat each stakeholder group as if they were partners in the success of the firm. This approach works well within and between all business functions, and it can work well with all of the stakeholder groups. Other activities are implied by the concepts of fairness and respect. Promise-keeping is an example of treating stakeholders with fairness and respect. Keeping both implied and formally stated promises implies fair treatment and provides basic dignity for the impacted stakeholders. Another example is honesty in both behavior and communications. Being honest with stakeholders is another dimension of both fairness and respect. Still another dimension is transparency and openness with stakeholders. Being open is one way to show respect for the individual, but of course, it is constrained by the need to protect intellectual property rights.

### **Important issues in applying this definition of ethics**

Three issues arising from applying this definition of ethics are explored to develop a fuller understanding of what has been proposed. The first issue concerns the boundaries of commitment for business. What level of commitment is required to satisfy the ethical prescription of fairness and respect? How much is enough? How much is too little? The second issue looks into the synergistic effects from applying this approach to the mission of business. For an applied definition of ethics in business to be practical enough to be accepted and used by businesses, it must allow business to achieve its mission within its normal competitive environment. The third issue explores the interface between the domains of business ethics and role of society/government. Some examples relating to these issues appeared earlier, but this section provides elaboration and focus on the subject.

### *The boundaries of commitment for business*

There is no universal, specific formula for establishing the boundaries for business ethical commitment. Only a general guideline can be created, and that guideline must be applied within the specific history, time, and context of the situation. The guideline suggested requires a search for balance between (1) the seriousness of harm to the stakeholder and (2) the ability of the firm to help, given the existing constraints of the market. The latter guide simply recognizes that the ethical “ought” is always constrained by the practical “can.” The following examples illustrate the attempt to balance these two criteria.

### *Issues arising from situations external to business*

The issues discussed here arise from conditions that are mostly beyond the control of the business they impact. Difficult situations occur naturally as part of human lives. Natural and human-made disasters cause problems for businesses and their stakeholders. Neither business nor its stakeholders can avoid it. Further, business cannot fully protect its stakeholders from the impact of this jungle-like environment, nor should that be expected by society if full economic benefits of a system like capitalism are desired. Operating within the system still requires that business try to soften the blow of this environmental impact on their stakeholders. The amount of that effort is best determined by considering the history, timing, and context of the situation, but always directed by the intent of making the lives of its stakeholders better, subject to the needs of the firm.

As an illustration involving employees, consider the Boeing Corporation’s position immediately after the 9/11 attacks on the World Trade Towers. They guessed correctly that people would choose to fly less, and that airlines would not need new equipment for the near future. Thus, they were faced with the business fact that they needed much less of their labor force than they currently had employed, and layoffs were necessary for the business to survive. For Boeing and its employees, that was the world of “What Is.” The ethical world of “What Ought to Be” becomes important in how the lay-offs were handled. The company was responsible for mediating as best it reasonably could against the impacts of this unpredictable disaster for its employees.

In the *context* of this particular example, where the company was legitimately concerned about its own survival, their attempts at mediation probably had to be somewhat limited. However, even within these conditions, they had the ethical responsibility to treat their employees fairly and with respect. That approach includes honest communication and behavior, openness, and basic respect for the fact that employees are humans, and not physical assets like plant or equipment which could be easily cast aside.

One example involving customers is the now famous Tylenol poisoning case. The company had a viable product that was an effective pain reliever when a sociopath began injecting cyanide into the product at the retail level. Again, the world of “What Is” became very jungle-like for the makers of Tylenol and their customers. Behaving fairly and with respect toward their customers required considerably more effort and expense than in the previous example because in this *context*, human life was involved. McNeil Labs, the makers of Tylenol, did what was needed in order to respond ethically. They removed the product from the market and bought back unused portions in order to protect the lives of their customers. Johnson and Johnson was the parent company of McNeil Labs, and it is interesting to note that their CREDO essentially states that each stakeholder group is to be treated fairly and with respect (see [www.jnj.com](http://www.jnj.com)).

These two examples illustrate how an extreme and unexpected jungle-like environment can have a great impact on business’ relationship with its stakeholders. However, jungle-like conditions do not require the dire events that existed in the first two examples. An example of the impact of a market-related external impact occurred at the end of 2003 when R. J. Reynolds Tobacco Company laid off a substantial portion of its work force in North Carolina because the company existed in a declining domestic tobacco industry. However, the ethical requirements are the same. The lay-offs had to occur with attempts at fairness and respect toward its impacted employees.

#### *Issues arising from direct interactions with stakeholders*

Unlike previous examples, these issues are events over which business has substantial control. For example, power differentials between business and its stakeholders can occur for several reasons, some of

which were noted earlier (e.g., limited options by one party, differences in knowledge or information, and financial strength or market access). These conditions can limit or obscure the best options for stakeholders in their relations with business. Thus, even if the stakeholders’ choice is freely made, they may not be in position to make their best selection. While businesses should not put themselves in the position of deciding what is best for the stakeholder, they should attempt to develop empathy for stakeholders in the context of the situations they face. This empathy, combined with an attempt at fairness, requires that business try to understand what the stakeholder group would desire, or how that group would likely proceed, *if there were no basis for the power difference*. Then, the appropriate ethical reaction is an attempt to act with fairness and respect in response to those stakeholder desires. The process can be difficult and imperfect, as any new product manager knows when s/he attempts to determine what potential customers want. However, the business should do a reasonable amount based on the history, timing, and context of the situation. Stakeholders cannot ethically demand what is reasonably beyond management’s ability to provide. What is required of business is neither an excessive nor severely limited effort. Much good to stakeholders, society, and business is likely to accrue from a reasonable attempt, and that is compatible with the previously defined role for business ethics.

As a general example of this approach, sometimes stakeholders do not know that they are treated unfairly and/or without respect. Then, the question of why the firm should be concerned if the stakeholder does not know that they are being treated unfairly or without respect can be answered in two ways. One response is simply that it is the ethical thing to do according to the tenets developed earlier. Another response is that it is likely that the stakeholders will eventually find out, with disastrous results for the firm. For example, management at Johns-Manville (now Manville Corp.) kept the fact that asbestos is a deadly product for both their customers and employees secret for about three decades. Neither stakeholder group knew about the problem, and it might have seemed that the company got away with it. Further, the company was within the existing legal limits of fibers per unit volume for most of that three decade period (Sells, 1994,



pp. 76–90). However, when the problem was discovered, the company was severely damaged. It was reorganized, and 80% of its profits went to pay claims against it for many years. Thus, satisfying the law, but not the fairness and respect criteria of ethics, was not enough to protect the company.

### **Synergies with the mission of business**

While fair and respectful interactions with stakeholders are defined as ethical behaviors, it is important to note that they are also trust-building factors. That is, by pursuing ethical behavior with stakeholders in this manner, business is also building important trust links with each group. Each stakeholder group then begins to trust the business to treat them fairly and with respect. Gaining stakeholder trust can become a performance multiplier for business, thereby helping to achieve the business mission while also satisfying the ethics side of business ethics – a result with positive outcomes for both missions. Since the purpose of this article was to offer one approach for satisfying both goals, that purpose is met. There may be other approaches that satisfy both missions and this attempt should be considered as only a beginning. Specific stakeholder examples follow.

#### *Relations with employees*

Employees are often the most important assets of a company even if they typically do not appear on the firm's balance sheet. Further, in the knowledge-based, service-oriented economies of many industrialized countries, they have become more important assets. How can a company get the most from their employees? What is it that people bring to the job that machines cannot do? It is the ability to think, reason, solve problems, take risks, and be creative. What happens if an employee is asked to be an innovative, problem solver and risk-taker and s/he does not believe that the company will behave fairly and treat her/him with respect? At best, satisficing, or minimal acceptable performance, will occur. Why should the individual take a chance at doing more? Only when people are treated fairly and with respect is it possible for the firm to gain the most from their employees. Trust between the company and its employees has been identified as

having the potential of producing a competitive advantage that is difficult or impossible to imitate (Barney and Hansen, 1994), and trust is best developed by fair treatment and respect.

#### *Relations with customers*

For the case of customers, the positive effects from ethical behavior revolve around the importance of long-term relationships. Keeping a customer is sometimes cheaper and easier than trying to attract a new one, especially for certain businesses. The recently popular concept of relationship marketing represents an approach that recognizes this fact. Customers who do not believe that they are treated fairly and with respect do not become repeat buyers. Further, they tell others about their bad experience. The negative word-of-mouth advertising can keep people from becoming loyal customers, or even trying the product/service at all. Relationship building with customers requires fair treatment and respect. Customer trust seems to create a perception of value in maintaining a relationship with the seller, and that trust impacts loyalty in relational exchanges (Sirdeshmukh et al., 2002). Management should be able to satisfy customers by treating them fairly and with respect, and the results should help long-term profitability.

#### *Relations with suppliers*

The subject of relationship building in the supply chain is integral to the analysis of supply chain management. Organization and relationship management are now a common topic within the literature on the subject. Good relations between organizations in the supply chain help produce the greatest value for customers at the lowest possible cost. Kumar, in a *Harvard Business Review* article, found that trust creation between supply chain members improved sales and reduced costs (1996, pp. 92–106). It does seem clear that no long term, successful collaboration can exist in supply chain relationships without mutual trust, and central to trust building is the concept of fairness and justice.

#### *Relations with communities*

In relations with communities, fair treatment and respect mean that the company must be a good citizen in every location it operates. The choice of a site must be a business decision, but once the firm

selects a location, they owe that community fair treatment and respect. This company requirement parallels the good citizenship that each individual owes to their community. The positive, profit-based justifications for being a good corporate citizen comes from the reputation it builds. That reputation is likely to make the company sought after by communities and expand its options.

### **Societal desires beyond economic welfare**

The prevalence of capitalism, and its efficient and effective delivery of economic welfare to the citizens of the society adopting it, makes it the obvious base within which business ethics must operate. However, the motivations inherent in capitalism do not cover several important issues that are of interest to the citizens of most societies. Further, the motivations of individuals who operate capitalistic institutions do not always follow the dictates the capitalistic model suggests. Situations can exist where society must set constraints and dictate directions for business. The most obvious of these situations include protecting the environment, protecting the “commons,” protecting future generations, and protecting stakeholders against unethical businesses and individuals.

Society should expect its businesses to be good citizens in the same sense that individuals in society are expected to be good citizens even without legislation. Examples include keeping property presentable to others, helping in community activities, and encouraging employees to be good citizens. Donaldson (1996) described this requirement as “work(ing) together to support and improve the institutions on which the community depends (p. 53).” However, asking businesses to go beyond their good citizen role in a competitive environment, where there are no natural capitalistic motivations, is unrealistic. At that point, it becomes the role of society’s government to direct business as it desires. Then the business task becomes compliance with both the letter and spirit of the law. A discussion specific to these issues follows.

#### *Protecting the environment*

Except in a limited number of cases, the short-term motivation for capitalistic firms is to use the environment to create firm value wherever possible.

In such cases, the pollution of soil, air, and water are treated as “free goods” unless society restricts such behavior or adds a cost to it. The government of society has the power to direct businesses operating in its domain, and it can react to the collective wishes of society with regard to protecting the environment. In practice, legal regulation of the environment occurs throughout the industrialized world.

#### *Protecting the “commons”*

If it is society’s wish to have common places for the enjoyment of everyone, then it is in that government’s purview to mandate and support them. It is also within that government’s purview to mandate how those common areas are used and maintained. This practice also occurs in most industrialized countries.

#### *Protecting future generations*

Maintaining resources, so as to have a reasonable quantity and quality available for future generations, is also within the scope of government. There is no natural motivation beyond maintaining normal efficiency in business to save resources for the future. If it is society’s collective wish to maintain such resources, then it must do so through its regulatory system. Once again, it is common for industrialized countries to protect resources for the future.

#### *Protecting stakeholders against unethical business practices*

Business ethics is defined as protecting stakeholders, but unethical people and unethical business firms exist. Society must protect itself against these unethical entities. The existence of consumer protection legislation, labor law, contract law, and antitrust legislation in industrialized countries suggests that societies understand this need and have acted accordingly.

#### *When government fails to protect its citizens*

In some underdeveloped and developing countries, governments may not fairly represent their citizens. A business in the position of operating in such a country has a duty to the people of that country and not just their government. In such a situation, the business still owes the community the basic business ethics requirements of fairness and respect. It is also required to fulfill good citizenship expectations. Within these requirements are the people’s right to good health and their right to economic advancement (Donaldson, 1996, p. 53).

## Summary and conclusions

Academics in the business disciplines have developed useful science-based models to explain business ethics behavior but have done so without a universal definition of “ethical.” The purpose of this article is to offer one definition that could be acceptable to both business academics and business professionals. It is acknowledged that other definitions are possible and that they should be encouraged.

The approach offered in this article borrows ideas from the moral philosophy literature to inform the proposed definition but recognizes that those concepts must be constrained by the practical needs of business. These needs are assumed to be the requirements of firms operating in a capitalistic environment. Capitalism is pervasive among industrially advanced countries because it satisfies the economic mission most efficiently and effectively. Business ethics then has the chore of making the practice of capitalism more ethical.

The definition proposed to achieve that goal is that stakeholders should be treated with fairness and respect in their naturally occurring exchanges with business. As other approaches are developed and combined with this definition, and when they are fully analyzed and critiqued, the result should be an applied meaning of ethics in business that offers practical advice to business managers and business academics on how to achieve their goals both ethically and effectively.

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