

ETHICAL BEHAVIOUR



BUSINESS ETHICS

Tuan Mastiniwati Haji Tuan Mansor

Fundamental Principles of Ethical Behavior

This eBook is a lecture note which provides students with a complete array of teaching and learning materials for the Professional Ethics course.

This eBook covers on business ethics, importance of ethics in the business, ethical theories, organizational values, unethical behavior and ethical challenges.

Thank you.

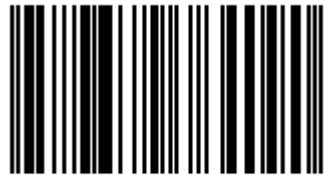
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FUNDAMENTAL PRINCIPLES
OF ETHICAL BEHAVIOUR

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1.1 BUSINESS ETHICS

INTRODUCTION

- The concept of business ethics began in the 1960s as corporations became more aware of a rising consumer-based society that showed concerns regarding the environment, social causes, and corporate responsibility. The increased focus on so-called social issues was a hallmark of the decade.
- Since that time period, the concept of business ethics has evolved. Business ethics goes beyond just a moral code of right and wrong; it attempts to reconcile what companies must do legally versus maintaining a competitive advantage over other businesses. Firms display business ethics in several ways.
- Managing a business ethically is related to being socially responsible, as businesses are a part of society. any unethical business conduct will have negative impacts on society.
- Although businesses are set up to generate profit, they must be responsible and accountable in their undertakings while serving society.
- In Malaysia, most private organizations (e.g commercial banks and government owned-corporations such as Maybank, TNB, United Engineers Malaysia, and Khazanah Nasional Berhad) abide by their own code of conduct and business ethics.

Ethics comes from inner feelings which subsequently translate into moral behavior. Ethics begins with each one of us. As a human, we are fully responsible for our ethical or unethical behaviour

DEFINITION OF ETHICS

- Ethics can be described as a set of principles that contains behavioural codes to determine what is right and what is wrong (Khalidah et al., 2012).
- The term "ethics" is derived from the Greek word, *ethos*, which means the character, spirit, and attitude of a group of people or culture (Rahman, 2013).
- Stanwick and Stanwick (2009) define ethics as the values an individual uses to interpret whether any particular action or behaviour is considered acceptable and appropriate.
- Velasquez (2012) and Nickels (2008) regard it as a discipline that examines one's moral behaviour or the moral standards of a society,
- Abdullah and Zainal Abidin (2011), ethics concern itself with what is good or right in human interaction.

DEFINITION OF BUSINESS ETHICS

Business ethics is the study of appropriate business policies and practices regarding potentially controversial subjects including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities.

- The law often guides business ethics, but at other times business ethics provide a basic guideline that businesses can choose to follow to gain public approval.
- Business ethics ensure that a certain basic level of trust exists between consumers and various forms of market participants with businesses.

1.2 IMPORTANCE OF ETHICS IN BUSINESS

THE IMPORTANCE OF ETHICS IN THE BUSINESS

- The global business world presents many challenges. Apart from fulfilling the profit maximization objectives which drive aggressive competition in a free market system, businesses have to face other challenges which are managing a global workforce.
- Code of ethics is a business ethics guidelines as a reference for employees at the workplace. Both businesses and trade organizations typically have some sort of code of ethics that their employees or members are supposed to follow. Breaking the code of ethics can result in termination or dismissal from the organization. A code of ethics is important because it clearly lays out the rules for behavior and provides the groundwork for a preemptive warning.
- Business ethics are important because they have lasting implications on several levels. With increased investor awareness on environmental, social, and governance issues, a company's reputation is at stake. For instance, if a company partakes in unethical practices, such as poor customer privacy procedures and protections, it could result in a data breach. This, in turn, may lead to a significant loss of customers, erosion of trust, less competitive hires, and share price declines.

THE IMPORTANCE OF ETHICS IN THE BUSINESS

To keep existing customers

To attract new customers

To avoid lawsuits

To reduce employee turnover

To please customers, employees, and society

THE IMPORTANCE OF ETHICS IN THE BUSINESS

The importance of upholding ethics for the following reasons:

- i) **To keep existing customers** - Reputable organizations will maintain customer loyalty for business sustainability
- ii) **To attract new customers** - Good business or corporate image will attract new customers, and increase profitability
- iii) **To avoid lawsuits** - Reputable organizations will not hesitate to comply with laws and regulations to maintain their good image and dignity.
- iv) **To reduce employee turnover** - Reputable organizations will be able to maintain employee loyalty, thus reducing employee turnover. This will subsequently increase organizational effectiveness.
- v) **To please customers, employees, and society** - Good organizations will strive to fulfill the needs of maintaining stakeholders, i.e customers, employees, and the community they serve.

Ethical Theories

Consequentialist Ethical Theories
(Teleological Theories)

- Egoism
- Utilitarianism

Non-Consequentialist Ethical Theories
(Deontological Theories)

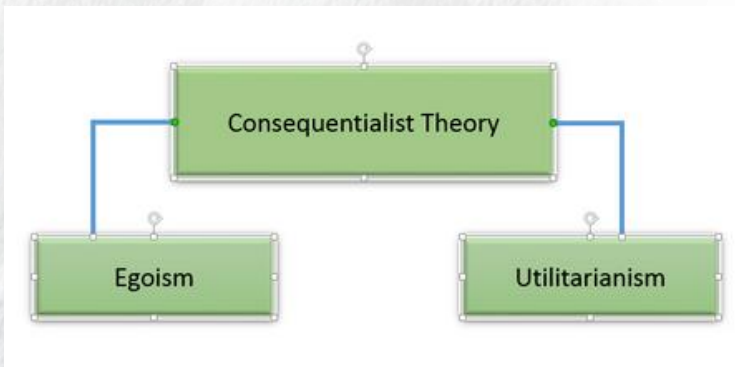
- Kant's Ethics
- Prima facie obligation
- Moral Right

1.3 CONSEQUENTIALIST ETHICAL THEORIES

1. Consequentialist Theory

Definition: Consequentialist theory is one of the normative ethics theories that try to answer the ethical questions about right or wrong and how we arrive at this answer.

- A consequentialist theory of value judges the rightness or wrongness of an action based on the consequences that action has.
- This theory determines whether to do or not do something based on the expected result of the action.
- It depends on whether the expected result is good or bad.
- It is divided into 2 types namely:
 1. Egoism
 2. Utilitarianism



(i) **Egoism** - as long as the action is good to the person who carries the action out, it's right.

- Ethical egoism can be understood as a consequentialist theory according to which the consequences for the individual agent are taken to matter more than any other result. Thus, egoism will prescribe actions that may be beneficial, detrimental, or neutral to the welfare of others.

ii) **Utilitarianism** - as long as the action is good to everybody including the person who carries the action out, it's right.

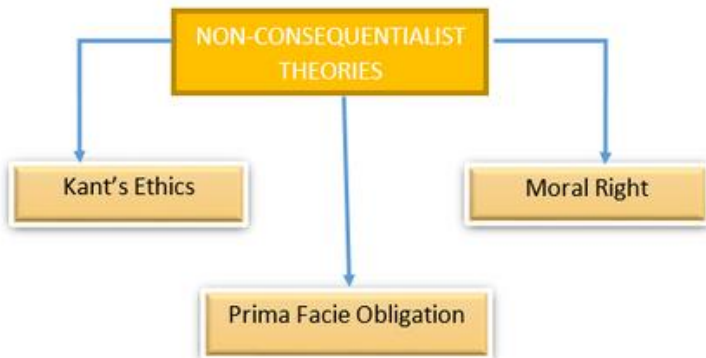
- Utilitarianism is a family of normative ethical theories that prescribe actions that maximize happiness and well-being for all affected individuals

1.4 NON-CONSEQUENTIALIST ETHICAL THEORIES

2. Non-Consequentialist Theory

Definition: Non-consequentialist is a type of normative ethical theory that denies that the rightness or wrongness of our conduct is determined solely by the goodness or badness of the consequences of our acts or of the rules to which those acts conform.

- This theory of value judges the rightness or wrongness of an action **based on properties intrinsic to the action**, not on its consequences.
- It does insist that even when the consequences of two acts or act-types are the same, one might be wrong and the other right.
- It is divided into 3 types namely:
 1. Kant's ethics
 2. Prima facie obligation
 3. Moral right



1. Kant's ethics

- One's actions possess moral worth only when one does his duty for its own sake. Immanuel Kant (1724-1804) first introduced this idea as something accepted by the common moral consciousness of human beings and only later tried to show that it is an essential element of any rational morality.
- Kant's ethics is a universal ethical principle stating that one should always **respect the humanity in others**, and that one should only act in accordance with rules that could hold for everyone.
- Kant argued that the moral law is a truth of reason, and hence that all rational creatures are bound by the same moral law. Thus in answer to the question, "What should I do?" Kant replies that we should act rationally, in accordance with a universal moral law.
- Kant also argued that his ethical theory requires belief in free will, God, and the immortality of the soul. Although we cannot have knowledge of these things, reflection on the moral law leads to a justified belief in them, which amounts to a kind rational faith.

2. Prima facie obligation

- A prima facie duty is a duty that is binding (obligatory) other things equal, that is, unless it is overridden or trumped by another duty or duties.
- Another way of putting it is that where there is a prima facie duty to do something, there is at least a fairly strong presumption in favor of doing it.
- An example of a prima facie duty is the duty to keep promises. "Unless stronger moral considerations override, one ought to keep a promise made."

- The prima facie duties include:
 1. Fidelity - Duties of fidelity are duties to keep one's promises and contracts and not to engage in deception.
 2. Reparation - This is a duty to make up for the injuries one has done to others.
 3. Gratitude- The duty of gratitude is a duty to be grateful for benefactions done to oneself and if possible to show it by benefactions in return.
 4. Non-injury - The duty of non-injury (also known as non-maleficence) is the duty not to harm others physically or psychologically: to avoid harming their health, security, intelligence, character, or happiness.
 5. Harm-Prevention - Once again, this is the prima facie duty of a person to prevent harm to others from causes other than him- or herself.

6. Beneficence - The duty to do good to others: to foster their health, security, wisdom, moral goodness, or happiness.
7. Self-Improvement - The duty of self-improvement is to act so as to promote one's own good, i.e., one's own health, security, wisdom, moral goodness, and happiness.
8. Justice - The duty of justice requires that one act in such a way that one distributes benefits and burdens fairly.

3. Moral Right

- Moral rights are justified by moral standards that most people acknowledge, but which are not codified in law, and therefore have been interpreted differently by different people.
- The preserving of the integrity of the work allows the author to object to alteration, distortion, or mutilation of the work that is "prejudicial to the author's honor or reputation"
- Moral rights do not have to depend on the existence of a legal system to determine the individual right. For example, the right to be treated with respect by others is a moral right of any human being.

Kant's ethics



- Concern with actions whether it is right or wrong
- Helps to know which actions are obligatory and which are forbidden.

Prima facie obligation



- When a person tries to decide how to act, each of these duties need to be taken into consideration when deciding which duty should be acted upon.

Moral Right



- What is moral or immoral is decided upon the basis of some standards of morality

1.5 ORGANISATIONAL VALUES WHICH PROMOTE ETHICAL BEHAVIOUR

- Values are psychological constructs, internal to a person.
- Organizations as such don't have values but, because they are composed of people, their cultures are shaped by values that are shared in varying degrees.
- Organisational values act as guiding principles to their employees, such as:

Organizational Values

- Openness
- Trust
- Honesty
- Respect
- Empowerment
- Accountability

1. Openness

- A culture high on openness encourages receiving and giving ideas and feelings from internal and external environment.
- This openness combined with willingness to share results in greater clarity of objectives and free interactions among people.

2. Trust

- No matter how many such formal structures there may be in organisations, if we do not trust each other simply to do what we say we will, we cannot conduct business in the modern world.
- Trust is confidence in the integrity, ability, character, and truth of a person thing (Berube, 1985).
- It is the most critical prerequisite for knowledge exchange and without trust, knowledge initiatives will fail, regardless of how thoroughly they are supported by technology and rhetoric (public speaking) (Davenport and Prusak, 1998).

3. Honesty

- In the context of human communication, people are generally said to be honest when they tell the truth to the best of their knowledge and do not hide what they know or think.
- Apart from being truthful, honesty is also generally thought to involve abstaining from unfair behavior.

4. Respect

- Respect is an important value that takes into consideration others' strengths and weaknesses and who they are as persons.
- Respect includes also the courtesy towards others and also the willingness to keep confidentiality.

5. Empowerment

- Empowerment should be seen as the process of an individual enabling himself to take action and control work and decision making in autonomous ways.
- The organisation has the responsibility to create a work environment which helps foster the ability and desire of employees to act in empowered ways.
- The work organisation has the responsibility to remove barriers that limit the ability of staff to act in empowered ways.

6. Accountability

- It is frequently described as an account-giving relationship between individuals
- Accountability cannot exist without proper accounting practices; in other words, an absence of accounting means an absence of accountability.

1.6 UNETHICAL BEHAVIOUR IN ORGANIZATION

Definition of Unethical Behavior

- Unethical behavior can be defined as actions that are against social norms or acts that are considered unacceptable to the public.

E.g - "A student used plagiarism on their final written assignment to get a higher grade" This is unethical because it goes against social norms and the majority of the people would find this act unacceptable.

- Unethical behavior at work comes in many shapes and forms. The simplest way to categorize unethical behavior in the workplace is to consider both the target of the unethical behavior as well as its severity.

Examples of unethical behavior in the workplace

Each type of unethical behavior can manifest in many different ways. Below, you can find a comprehensive list of the most common examples of unethical behavior in the workplace, by type:

1. Misleading Communication
2. Fraudulent behavior
3. Anti-competitive activity
4. Production deviance
5. Knowledge Hiding
6. Property deviance & sabotage
7. Political deviance
8. Bullying

1. Misleading communications

- Advertising a product/service feature that does not exist;
- Making misleading claims to clients or suppliers;
- Omitting facts so that the inferences about a product/service are different from reality;
- Overpricing products and services.

2. Fraudulent behavior

- Evading taxes;
- Bribing other companies or governmental agencies;
- Fabricating or manipulating quality reports and safety tests;
- Violating or ignoring environmental regulations;
- Sharing false information with regulators;

3. Anti-competitive activity

- Price fixing (discussing and fixing prices to be charged to consumers with competitors);
- Information sharing that might reduce the competition (price, stock, market, and plans, for example);
- Abusing a dominant market position by selling at a loss to drive competition out;
- Agreeing with competitors to limit production with the intention of raising prices.

4. Production deviance

- Dragging out work to get overtime payment;
- Claiming more overtime hours than you worked;
- Making mistakes at work on purpose;
- Dragging out work to miss important deadlines;
- Distracting colleagues instead of working;
- Being nasty to clients;
- Covering up mistakes with lies;

5. Knowledge hiding

- Playing dumb: Pretending that you are not very knowledgeable about something, that you do not understand the question posed, or that you know nothing about the requested information;
- Evasive hiding: Sharing knowledge other than the one requested, sharing incorrect or incomplete information, agreeing to help but never actually doing it, providing misleading promises of future assistance;

6. Property deviance and sabotage

- Taking property from the organization without permission;
- Wasting organizational property (materials, services, and supplies, for example);
- Damaging, on purpose, the organization's equipment, services, or property;

7. Political deviance

- Showing favoritism to people who are important for personal goals;
- Gossiping and undermining others to gain personal advantage;
- Creating personal connections with others to push them to work beyond job description;
- Giving or accepting gifts in exchange for special treatment;

8. Bullying/mobbing

- Unfairly accusing or blaming a colleague for something that went wrong at work;
- Excessively monitoring a colleague's work;
- Pressuring someone, directly or indirectly, to withhold their rights (such as travel expenses, sick leave);

1.7 ETHICAL CHALLENGES BY ORGANIZATIONAL FUNCTION

Ethical Challenges

- Organizational ethics express the values of an organization to its employees and affect all functional areas in a business.
- In business, many of these ethical challenges appear in the form of bribes, conflicts of interest, issues of honesty and integrity, and whistle-blowing.
- Organizational Ethics is how an organization ethically responds to an internal or external stimulus. Organizational ethics express the values of an organization to its employees and other entities, irrespective of governmental and/or regulatory laws.
- There are at least four elements that make ethical behavior conducive within an organization:
 - A written code of ethics and standards
 - Ethics training to executives, managers, and employees
 - Availability for advice on ethical situations (i.e, advice lines or offices)
 - Systems for confidential reporting.

Ethical Issues in Finance

The 2008 financial crisis caused critics to challenge the ethics of the executives in charge of U.S. and European financial institutions and regulatory bodies. Previously, finance ethics was somewhat overlooked because issues in finance are often addressed as matters of law rather than ethics. Fairness in trading practices, trading conditions, financial contracting, sales practices, consultancy services, tax payments, internal audits, external audits, and executive compensation also fall under the umbrella of finance and accounting. Specific corporate ethical/legal abuses include creative accounting, earnings management, misleading financial analysis, insider trading, securities fraud, bribery/kickbacks, and facilitation payments.

Ethical Issues in Human Resource Management

Human resource (HR) management involves recruitment selection, orientation, performance appraisal, training and development, industrial relations and health and safety issues. Discrimination by age (preferring the young or the old), gender, sexual orientation, race, religion, disability, weight, and attractiveness are all ethical issues that the HR manager must deal with.

Ethical Issues in Sales and Marketing

Ethics in marketing deals with the principles, values, and/or ideals by which marketers and marketing institutions ought to act. Ethical marketing issues include marketing redundant or dangerous products/services; transparency about environmental risks, product ingredients (genetically modified organisms), possible health risks, or financial risks; respect for consumer privacy and autonomy; advertising truthfulness; and fairness in pricing and distribution. Some argue that marketing can influence individuals' perceptions of and interactions with other people, implying an ethical responsibility to avoid distorting those perceptions and interactions.

Marketing ethics involves pricing practices, including illegal actions such as price fixing and legal actions including price discrimination and price skimming. Certain promotional activities have drawn fire, including greenwashing, bait-and-switch, shilling, viral marketing, spam (electronic), pyramid schemes, and multi-level marketing. Advertising has raised objections about attack ads, subliminal messages, sex in advertising, and marketing in schools.

Ethical Issues in Production

Business ethics usually deals with the duties of a company to ensure that products and production processes do not needlessly cause harm. Few goods and services can be produced and consumed with zero risk, so determining the ethical course can be problematic. In some cases, consumers demand products that harm them, such as tobacco products.

Production may have environmental impacts, including pollution, habitat destruction, and urban sprawl. The downstream effects of technologies such as nuclear power, genetically modified food, and mobile phones may not be well understood. While the precautionary principle may prohibit introducing new technology whose consequences are not fully understood, that principle would have prohibited most of the new technology introduced since the industrial revolution. Product testing protocols have been attacked for violating the rights of both humans and animals.

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TUTORIAL

Answer all questions:

1. Define business ethics.

2. Explain the importance of ethics in the business.

3. Differentiate between consequentialist and non-consequentialist theories.

4. Discuss the common ethical challenges faced by a businessman

TUTORIAL

Answer all questions:

5. Define
Consequentialist
theory

6. Explain
Utilitarianism
Consequentialist
theory .

7. Define Non-
Consequentialist
theory

8. Explain Kant's
ethics.

9. Provide the discussion on
the organizational values
which promote ethical
behaviour

TUTORIAL

Answer all questions:

10. Define openness, trust, honesty and respect.

11. Why empowerment and accountability is important ?

12. Provide the discussion on the unethical behavior in organization

13. Provide the discussion on the unethical behavior in your colleges.

14. Discuss the ethical challenges by organizational function.

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