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BUSINESS ETHICS

FOURTH EDITION



ANDREW CRANE AND DIRK MATTEN

business ethics



business ethics



**Managing Corporate
Citizenship and Sustainability
in the Age of Globalization**

Fourth edition

**ANDREW CRANE
DIRK MATTEN**

OXFORD
UNIVERSITY PRESS

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UNIVERSITY PRESS

Great Clarendon Street, Oxford, OX2 6DP,
United Kingdom

Oxford University Press is a department of the University of Oxford.
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First edition 2004

Second edition 2007

Third edition 2010

Impression: 1

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Published in the United States of America by Oxford University Press
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data

Data available

Library of Congress Control Number: 2015944382

ISBN 978-0-19-969731-1

Printed in Great Britain by
Bell & Bain Ltd., Glasgow

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OUTLINE CONTENTS

List of figures	xii
List of boxes	xiv
How to use this book	xvi
Guide to the book	xx
How to use the Online Resource Centre	xxii
Acknowledgements	xxiv

PART A

Understanding Business Ethics	1
1 Introducing Business Ethics	3
2 Framing Business Ethics: Corporate Responsibility, Stakeholders, and Citizenship	44
3 Evaluating Business Ethics: Normative Ethical Theories	85
4 Making Decisions in Business Ethics: Descriptive Ethical Theories	134
5 Managing Business Ethics: Tools and Techniques of Business Ethics Management	182

PART B

Contextualizing Business Ethics	227
The Corporate Citizen and its Stakeholders	
6 Shareholders and Business Ethics	229
7 Employees and Business Ethics	285
8 Consumers and Business Ethics	338
9 Suppliers, Competitors, and Business Ethics	387
10 Civil Society and Business Ethics	439
11 Government, Regulation, and Business Ethics	489
12 Conclusions and Future Perspectives	537

References	549
Subject index	579
Name index	592
Countries and regions index	599
Companies, organizations, and brands index	601

DETAILED CONTENTS

List of figures	xii
List of boxes	xiv
How to use this book	xvi
Guide to the book	xx
How to use the Online Resource Centre	xxii
Acknowledgements	xxiv

PART A

Understanding Business Ethics

1	Introducing Business Ethics	3
	What is business ethics?	4
	Why is business ethics important?	9
	Business ethics in different organizational contexts	15
	Globalization: a key context for business ethics?	18
	Sustainability: a key goal for business ethics?	31
	Summary	36
2	Framing Business Ethics	44
	CORPORATE RESPONSIBILITY, STAKEHOLDERS, AND CITIZENSHIP	
	Towards a framework for business ethics	45
	What is a corporation?	45
	Corporate social responsibility	48
	Stakeholder theory of the firm	58
	Corporate citizenship—the firm as a political actor	67
	Summary	78

3	Evaluating Business Ethics	85
	NORMATIVE ETHICAL THEORIES	
	Introduction	86
	The role of ethical theory	87
	Normative ethical theories: International origins and differences	88
	Normative ethical theories and religion	91
	Western modernist ethical theories	92
	Alternative perspectives on ethical theory	114
	Summary: towards a pragmatic use of ethical theory	123
4	Making Decisions in Business Ethics	134
	DESCRIPTIVE ETHICAL THEORIES	
	Introduction	135
	What is an ethical decision?	136
	Models of ethical decision-making	137
	Individual influences on ethical decision-making	142
	Situational influences on decision-making	156
	Summary	174
5	Managing Business Ethics	182
	TOOLS AND TECHNIQUES OF BUSINESS ETHICS MANAGEMENT	
	Introduction	183
	What is business ethics management?	183
	Setting standards of ethical behaviour: designing and implementing codes of ethics	190
	Managing stakeholder relations	199
	Assessing ethical performance	206
	Organizing for business ethics management	214
	Summary	219

PART B**Contextualizing Business Ethics**

The Corporate Citizen and its Stakeholders

6 Shareholders and Business Ethics	229
Introduction: reassessing the importance of shareholders as stakeholders	230
Shareholders as stakeholders: understanding corporate governance	231
Ethical issues in corporate governance	239
Shareholders and globalization	252
Shareholders as citizens of the corporation	260
Shareholding for sustainability	267
Summary	275
7 Employees and Business Ethics	285
Introduction	286
Employees as stakeholders	287
Ethical issues in the firm–employee relation	288
Employing people worldwide: the ethical challenges of globalization	317
The corporate citizen and employee relations	324
Towards sustainable employment	327
Summary	330
8 Consumers and Business Ethics	338
Introduction	339
Consumers as stakeholders	340
Ethical issues, marketing, and the consumer	343
Globalization and consumers: the ethical challenges of the global marketplace	362
Consumers and corporate citizenship: consumer sovereignty and the politics of purchasing	365
Sustainable consumption	369
Summary	378

9 Suppliers, Competitors, and Business Ethics	387
Introduction	388
Suppliers and competitors as stakeholders	389
Ethical issues and suppliers	393
Ethical issues and competitors	402
Globalization, suppliers, and competitors: the ethical challenges of global business networks	407
The corporate citizen in business-to-business relationships: ethical sourcing and fair trade	414
Sustainability and business relationships: towards industrial ecosystems?	427
Summary	431
10 Civil Society and Business Ethics	439
Introduction	440
Civil society organizations as stakeholders	442
Ethical issues and CSOs	446
Globalization and civil society organizations	461
Corporate citizenship and civil society: charity, collaboration, enterprise, or regulation?	465
Civil society, business, and sustainability	478
Summary	481
11 Government, Regulation, and Business Ethics	489
Introduction	490
Government as a stakeholder	490
Ethical issues in the relationship between business and government	497
Globalization and business–government relations	513
Corporate citizenship and regulation: business as key player in the regulatory game	517
Governments, business, and sustainability	525
Summary	529

12 Conclusions and Future Perspectives	537
Introduction	538
The nature and scope of business ethics	538
Globalization as a context for business ethics	538
Sustainability as a goal for business ethics	540
Corporate citizenship and business ethics	541
The contribution of normative ethical theories to business ethics	542
Influences on ethical decision-making	543
The role of management tools in business ethics	543
The role of different stakeholder constituencies in business ethics	544
Trade-offs and conflicts between different stakeholder groups	546
Summary	546
<hr/>	
References	549
Subject index	579
Name index	592
Countries and regions index	599
Companies, organizations, and brands index	601

LIST OF FIGURES

Figure 1.1	The relationship between ethics and the law	6
Figure 1.2	The relationship between morality, ethics, and ethical theory	8
Figure 1.3	Types of misconduct across sectors	16
Figure 1.4	Differences in business ethics across organizational types	17
Figure 1.5	Examples of the ethical impacts of globalization on different stakeholder groups	23
Figure 1.6	Regional differences from a business ethics perspective: the example of Europe, North America, and Asia	24
Figure 1.7	Corporate commitments to sustainability	32
Figure 1.8	The three components of sustainability	33
Figure 2.1	Carroll's four-part model of corporate social responsibility	51
Figure 2.2	Basic types of CSR strategies	54
Figure 2.3	Some early definitions of stakeholders	59
Figure 2.4	Stakeholder theory of the firm	62
Figure 2.5	Commitments to corporate citizenship	72
Figure 2.6	An extended view of corporate citizenship	73
Figure 3.1	Consequentialist and non-consequentialist theories in business ethics	92
Figure 3.2	Major normative theories in business ethics	93
Figure 3.3	Example of a utilitarian analysis	99
Figure 3.4	The Golden Rule in different belief systems	103
Figure 3.5	Human rights statements by multinationals	106
Figure 3.6	A typical perspective on the value of ethical theory for solving ethical dilemmas in business	123
Figure 3.7	A pluralistic perspective on the value of ethical theories for solving ethical dilemmas in business	124
Figure 3.8	Considerations in making ethical decisions: summary of key insights from ethical theories	125
Figure 4.1	Ethical decision-making process	138
Figure 4.2	Framework for understanding ethical decision-making	140
Figure 4.3	Individual influences on ethical decision-making	143
Figure 4.4	Stages of cognitive moral development	147
Figure 4.5	Famous whistleblower cases	153
Figure 4.6	Situational influences on ethical decision-making	157
Figure 4.7	Rationalizing unethical behaviour	163
Figure 5.1	Business ethics management	184
Figure 5.2	Unilever's Code of Business Principles	192
Figure 5.3	Stakeholder dialogue: social accounting process	208
Figure 5.4	Basic materiality matrix	208
Figure 5.5	Organizing for business ethics management	215

Figure 6.1	Agency relation between the manager and shareholder	234
Figure 6.2	Comparison of corporate governance regimes globally	236
Figure 6.3	Two approaches to 'ethical' shareholding	262
Figure 6.4	Examples of positive and negative criteria for socially responsible investment	264
Figure 6.5	Top ten stocks held in SRI funds invested in companies in emerging markets 2012	265
Figure 6.6	Principles of responsible investment	266
Figure 6.7	Principles of co-operation	271
Figure 7.1	Rhetoric and reality in HRM	289
Figure 7.2	Rights and duties of employees	290
Figure 7.3	Women in top management positions	292
Figure 7.4	Union density (percentage of union members as a proportion of the total workforce) in selected countries	307
Figure 8.1	UN Guidelines on Consumer Protection	342
Figure 8.2	Ethical issues, marketing, and the consumer	344
Figure 8.3	Per cent changes since 1978 for educational books, medical services, new home prices, and consumer price index in the US	354
Figure 8.4	Consumer sovereignty test	366
Figure 8.5	Changing social ethics and consumption	370
Figure 8.6	From a linear to a circular flow of resources	376
Figure 9.1	Supplier relationship as part of an industrial network	392
Figure 9.2	Chartered Institute of Procurement and Supply's Code of Professional Ethics	400
Figure 9.3	Ethics in the grey areas of competitive intelligence	404
Figure 9.4	Bribe paying by multinational companies abroad according to selected country of origin	410
Figure 9.5	Top ten sectors perceived as most likely to engage in bribery	411
Figure 9.6	The cocoa market 1994–2015: comparison of Fairtrade and New York prices	426
Figure 9.7	Kalundborg industrial ecosystem	430
Figure 10.1	Civil society as the 'third Sector'	440
Figure 10.2	Diversity in CSO characteristics	442
Figure 10.3	Different types of CSOs	444
Figure 10.4	Some well-known boycotts	456
Figure 10.5	Accountability charter for international NGOs	460
Figure 10.6	Some examples of business–CSO collaboration	469
Figure 10.7	Key differences between social enterprise, CSOs, and corporations	474
Figure 10.8	Core activities of the Ethical Trading Initiative	477
Figure 11.1	Government as a stakeholder of business	493
Figure 11.2	Government between business' and society's interests	499
Figure 11.3	Business influence on government	502
Figure 11.4	Corruption Perception Index for selected countries	509
Figure 11.5	Players in the regulatory game and selected examples of private regulatory efforts	519

LIST OF BOXES

Cases

Case 1:	Global McEthics: should McDonald's ethics be standardized across the globe?	38
Case 2:	American Apparel: a new fashion for CSR?	80
Case 3:	Canada's oil sands: 'most destructive project on Earth' or 'ethical oil'?	127
Case 4:	News Corporation's phone hacking scandal: no news is good news?	175
Case 5:	Siemens: engineering change in anti-corruption	221
Case 6:	Corporate governance of professional football clubs: for profit or for glory?	277
Case 7:	The expendables: migrant labour in the global workforce	332
Case 8:	Targeting the poor with microfinance: hype or hope for poverty reduction?	380
Case 9:	Uzbek cotton: a new spin on responsible sourcing?	433
Case 10:	From conflict to collaboration? Greenpeace's Greenfreeze campaign	483
Case 11:	Managing the ethics of censorship and surveillance: where next for the Global Network Initiative?	530

Ethical Dilemmas

An Ethical Dilemma 1:	No such thing as a free drink?	6
An Ethical Dilemma 2:	When good results are bad results	70
An Ethical Dilemma 3:	Producing toys—child's play?	94
An Ethical Dilemma 4:	Stuck in the middle?	168
An Ethical Dilemma 5:	Getting explicit about the code of conduct	196
An Ethical Dilemma 6:	Who cares whose shares?	248
An Ethical Dilemma 7:	Off your face on Facebook?	302
An Ethical Dilemma 8:	A fitting approach to shoe selling?	350
An Ethical Dilemma 9:	A beautiful deal?	394
An Ethical Dilemma 10:	Where's the beef?	448
An Ethical Dilemma 11:	Always good to have friends in politics	498

Ethics in Action

Ethics in Action 1.1:	Ethical sex shops?	10
Ethics in Action 1.2:	Local rules in east Asia	24
Ethics in Action 2.1:	Interview: Jim McEleney, BNY Mellon	56
Ethics in Action 2.2:	Private, but public	74
Ethics in Action 3.1:	Business and human rights: rolling out the Ruggie principles	106
Ethics in Action 3.2:	Indigenous peoples and the extractive sector: NGOs that know what they want	120
Ethics in Action 4.1:	Rogue trader, latest edition	158

Ethics in Action 4.2:	The Stanford Prison Experiment	170
Ethics in Action 5.1:	NGO partnering: save the reputation?	202
Ethics in Action 5.2:	The Global Reporting Initiative	212
Ethics in Action 6.1:	Banking regulations struggle to avert the next financial crisis	256
Ethics in Action 6.2:	Alternative ownership structures—stronger together	272
Ethics in Action 7.1:	Cambodia’s wage protests: fashion brands support garment workers	312
Ethics in Action 7.2:	Social media challenges: do employees tweet your values?	318
Ethics in Action 8.1:	Marketing—the ethics of emotions from a can	348
Ethics in Action 8.2:	Organic food—what is an ‘organic’ label really worth?	374
Ethics in Action 9.1:	Engagement—help your suppliers become better businesses	415
Ethics in Action 9.2:	Conflict free minerals—tainted goods	422
Ethics in Action 10.1:	Emerging market campaigners—ground-level activism	462
Ethics in Action 10.2:	Partners in sustainability	470
Ethics in Action 11.1:	Corruption risk and opportunity	510
Ethics in Action 11.2:	The UN Global Compact: talking about global regulation	522

Ethics on Screen

Ethics on Screen 1:	The Wolf of Wall Street	14
Ethics on Screen 2:	Promised Land	64
Ethics on Screen 3:	Margin Call	96
Ethics on Screen 4:	House of Cards	164
Ethics on Screen 5:	Pink Ribbons, Inc.	204
Ethics on Screen 6:	Wall Street and Wall Street: Money Never Sleeps	240
Ethics on Screen 7:	Up in the Air	304
Ethics on Screen 8:	Fed Up	358
Ethics on Screen 9:	Revealing the Supply Chain	390
Ethics on Screen 10:	F*ck for Forest	452
Ethics on Screen 11:	Citizenfour	494

Ethics Online

Ethics Online 1:	Ethical fashion for ethics girls	13
Ethics Online 2:	Exploiting the competitive gene: the world of CSR Awards	60
Ethics Online 3:	Business ethics blogs	89
Ethics Online 4:	Ethics pledges	151
Ethics Online 5:	Stakeholder communication through social media	188
Ethics Online 6:	Tracking executive remuneration	244
Ethics Online 7:	Enabling activism around labour conditions in global supply chains	322
Ethics Online 8:	Tracking sustainable consumption	372
Ethics Online 9:	Practical resources for managing supply-chain ethics	419
Ethics Online 10:	Online activism through social media	454
Ethics Online 11:	Holding business and governments accountable	500

HOW TO USE THIS BOOK

■ Who is it for?

This book is suitable for MBA students, advanced undergraduates, masters students, as well as participants on executive courses. It has been specifically written from an international perspective, so it can be enjoyed by students from any country, and can be used effectively for courses in Europe, North America, Australasia, Asia, Latin America, or Africa.

One of the main differences between this and many other business ethics textbooks is that it adopts a broad perspective on business ethics and integrates issues of globalization, corporate citizenship, and sustainability throughout. As such, it has been designed to be used as a core recommended text for courses in business ethics, corporate responsibility, business and society, or stakeholder management. It can also be successfully used for modules focusing specifically on sustainable business, marketing ethics, supply-chain ethics, and other specialist subjects.

■ Structure of the book

The book consists of two parts, as shown in **Figure A**:

- **Part A** presents the key conceptual foundations of business ethics. This enables you to gain a thorough understanding of the subject's main theories and tools.
- **Part B** explores business ethics in the context of key stakeholder groups. Each chapter explains the specific stakeholder relationship involved, the main ethical issues that arise, and then how each stakeholder can be examined through the lenses of globalization, corporate citizenship, and sustainability.

Most courses will tend to use Part A as a foundation and then selectively use chapters or sections from Part B to suit the aims and structure of the particular course. The book has been specifically designed to accommodate this modular approach, and each of the sections in Part B can be used as a standalone component to support individual courses.

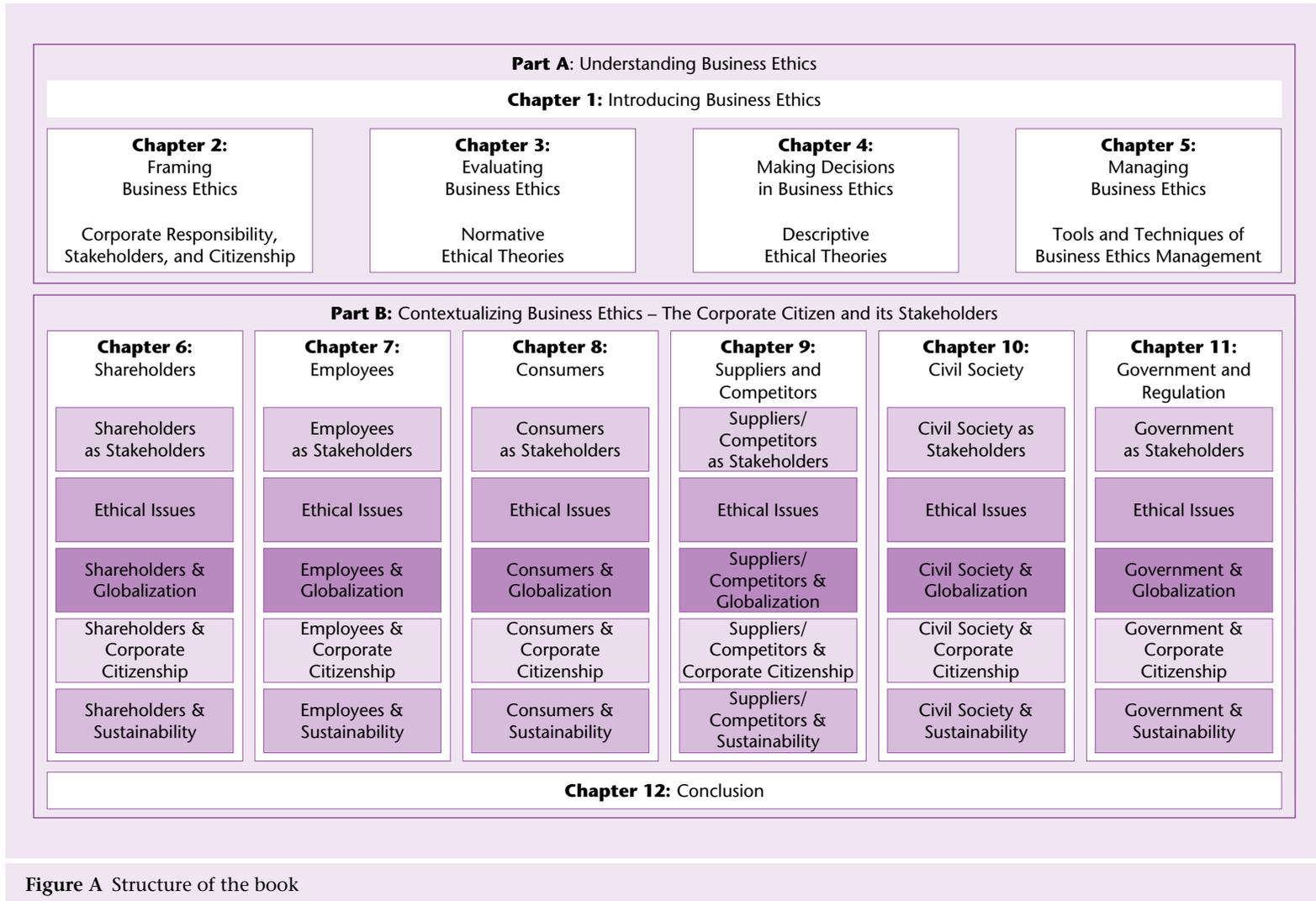


Figure A Structure of the book

■ Tools for teaching and learning

The book takes an applied approach to business ethics that emphasizes real-world application. This means that it is grounded in the academic literature but has been written with a strong emphasis on practical problems and real-life examples and illustrations. Business ethics issues seem to be in the media almost every day, so there is no shortage of current material to draw on. In fact, you are certain to have come across many of the examples featured in the book at some time—and Crane and Matten provide you with a way of linking those real-life events to the conceptual material that you will be covering on your course. For a full description of the pedagogical features used in the book please see pp. xx–xxii.

■ Chapter summaries

- **Chapter 1** provides a basic introduction to the concept of business ethics and its importance at both an academic level and in terms of practical management in different types of organizations. As well as explaining the international perspective adopted in the book, this chapter introduces two of the main themes of the book, namely globalization and sustainability.
- **Chapter 2** introduces ways of framing business ethics in the context of the corporation being part of a wider society. The chapter provides an overview of concepts such as corporate social responsibility and stakeholder theory, and leads on to an analysis of key contemporary concepts such as corporate accountability and corporate citizenship which offer important conceptual space for understanding business ethics beyond its traditional boundaries.
- **Chapter 3** sets out the key normative ethical theories that can be applied to business ethics problems, both in terms of traditional and contemporary theoretical approaches. The main intention is to identify a pragmatic, pluralistic approach to theory application.
- **Chapter 4** provides an alternative way of addressing these questions of ethical decision-making by looking at how decisions are actually made in business ethics, and by assessing the various descriptive theories in the literature. The main focus is on revealing the different individual and situational influences on how (and whether) business people recognize and deal with ethical problems.
- **Chapter 5** provides a critical examination of proposals for managing business ethics through specific tools, techniques, practices, and processes. This is done by looking at the importance of, and problems in, attempting to manage business ethics in the global economy, and the development over time of different ethics tools and techniques.

- **Chapter 6** sets out the rights and responsibilities of *shareholders*, emphasizing the ethical issues that arise in the area of corporate governance including insider trading, executive remuneration, and ethics of private equity. It also highlights the different corporate governance models across the globe, and the specific role played by shareholders in socially responsible investment. It concludes with a discussion of alternative forms of corporate ownership as a basis for enhanced sustainability.
- **Chapter 7** examines ethical issues in relation to *employees*. It discusses the various rights and duties of this stakeholder group, and presents the global context of workers' rights. Moves towards corporate citizenship and sustainability in relation to employees are discussed in the context of issues such as workplace democracy, work–life balance, and sustainable employment.
- **Chapter 8** considers the ethical issues arising in the context of *consumers*. It examines the question of consumer rights, the ideal of consumer sovereignty, and the role of ethical consumption in shaping corporate responsibility. The chapter concludes by examining problems and solutions around moving towards more sustainable models of consumption.
- **Chapter 9** explores the ethical issues arising in relation to firms' *suppliers* and *competitors*. The chapter examines problems such as conflict of interest, bribery, and unfair competition and moves on to discuss the global supply chain and ethical sourcing. Finally, the challenge of sustainable supply-chain management and industrial ecosystems are explored.
- **Chapter 10** considers the relationships between businesses and *civil society organizations* (CSOs), addressing the changing patterns of relationships between these traditionally adversarial institutions. Key issues examined here include the ethics of pressure group tactics, business–CSO collaboration, and social enterprise.
- **Chapter 11** covers *government* and *regulation*. Government as a stakeholder is a very multi-faceted group, which we unpack at various levels, functions, and areas. The chapter explores problems such as corruption and corporate lobbying and also examines the shifting relationships between regulation, government, and business, stressing the increasingly important role played by corporations in the governance of the global economy.
- **Chapter 12** provides a review and integration of the previous chapters in terms of key topics such as corporate citizenship, sustainability, and globalization. It also discusses the potential conflicts between different stakeholder groups discussed in Part B and draws conclusions about the future relevance of business ethics issues.

GUIDE TO THE BOOK

Each chapter includes the following pedagogical features:

Having completed this chapter you should be able to:

- Provide a basic definition of business ethics.
- Describe the relationship between business ethics and the law.
- Distinguish between ethics, morality, and ethical theory.
- Evaluate the importance of business ethics as an academic subject and as a practical management issue in organizations.
- Specify ethical challenges in different types of organizations.
- Describe how globalization represents a critical context for business ethics.
- Elaborate on different international perspectives on business ethics.

have pointed to the benefits for local communities of lower congestion and extra jobs for their citizens. Another argument for this extension is that if equity is to be extended to future generations, then logically it should be extended to all those in the current generation. Hence, one of the purposes of the World Commission on Environment and Development was to address world poverty and inequality. As we see it then, **sustainability** can be defined as the long-term maintenance of systems according to environmental, economic, and social considerations. This idea of sustainability as the long-term maintenance of systems taking economic, and environmental considerations as sufficient for the content of the concept, it is evident that sustainability as a phrase suggests a specific goal to be achieved. The framing of sustainability as a goal is encapsulated most completely in the notion of a 'triple bottom line'.

Sustainability
The long-term maintenance of systems according to environmental, economic, and social considerations.

✓ Skill check

Triple bottom line analysis. To understand the simultaneous and environmental impacts of business decisions is crucial. This analysis helps to evaluate this performance and to manage business goals but also to manage the trade-offs between them.

ETHICS IN ACTION 1.1

Ethical sex shops?

'Ethics' and 'sex shops' are two terms that are not usually found together. Many equate sex shops with a degree of seediness and exploitation that should have no place in ethical business practices. But a new breed of entrepreneurs have been challenging that assumption with the opening of a swathe of socially responsible sex shops that take a different approach.

Ethical sex shops come in a variety of guises. Consider the launch in the mid-2010s of supposedly 'halal' sex shops in Turkey and Saudi Arabia, aiming to market approved products to Muslim customers that would lead to 'the improvement of the sexual relationship between husband and wife'. Others, such as www.godaddy.com

AN ETHICAL DILEMMA 1

No such thing as a free drink?

Jenna, a good friend of yours who studies at the same university, has been complaining for some time to you that she never has any money. She decides that she needs to go out and find a job, and after searching for a while is offered a job as a bartender in the student bar at your university. She gladly accepts and begins working three nights a week. You are pleased too, not only because it means that Jenna will have more money, but also because it means you will continue to see her regularly—after all, you are a regular customer at the bar!

Jenna enjoys the extra income that the job brings. She also seems to enjoy the

Learning Objectives

Each chapter starts with a set of bulleted learning outcomes, which indicate what you can expect to learn from the chapter, including specific key concepts and skills.

Key Concepts

A new feature in the fourth edition, in each chapter there are definitions of key concepts that you need to remember, all highlighted in the margin for easy reference.

Skill Check

Another new feature, these are call-outs throughout the text to indicate where there are key skills that you will need to develop to become a business ethics expert. These include academic skills and practical business skills.

Ethics in Action

These are short articles, primarily drawn from *Ethical Corporation* magazine, which showcase current ethical problems faced by business, leading-edge initiatives, or high-profile scandals that have hit the headlines.

An Ethical Dilemma

These describe a hypothetical ethical scenario, mainly derived from real-life incidents, and provide you with the opportunity to think about what you would do in a typical business ethics situation in a structured way.

ETHICS ON SCREEN 1

The Wolf of Wall Street

[An] exhilarating orgy of excess.

Keith Uhlich, *Time Out New York*

The amorality of modern business, and of the finance industry in particular, has been a common theme in Hollywood over the years (see also Ethics on Screen 2 and 6). *The Wolf of Wall Street* ramps up the intensity with a romp through the coke-smorting, pill-popping, sex-fueled debauchery of com-



ETHICS ONLINE 1

Ethical fashion for ethics girls

Want to buy a new pair of skinny jeans, but also care about how much the workers were paid to make them? Think there may be space in your life for an iPhone case made from upcycled fire hose and reclaimed parachute silk? Well, being ethical does not have to mean being unfashionable any more, at least not according to the Ethics Girls, a UK-based organization launched online in 2007. The Ethics Girls website seeks to show that it is not the example in which

Unlike some ethical shopping sites, such as the Ethical Consumer organization's online buyers' guides (which provide detailed scorecards for a wide range of products in numerous categories), Ethics Girls do not claim to have a particularly robust research methodology. Their approach is style led rather than research led, with an emphasis on lifestyle journalism and the promotion of positive choices among source women. And certainly

Case 1

Global McEthics: should McDonald's ethics be standardized across the globe?

This case examines ethical criticisms of the US fast-food giant McDonald's, and explores demands for the company to extend its efforts to maintain legitimacy across the globe. The case focuses on the problems of obesity and unhealthy eating that have confronted the company, which are presented in the context of the broader critique of the chain. These issues cover many of the key concepts around ethics, globalization, and sustainability that are discussed in Chapter 1.

McDonald's is truly a multinational corporation. By 2014, the firm was operating some 33,000 restaurants in 119 countries, serving over 64 million customers a day. The mar-

? THINK THEORY

Think about inequality in terms of the definition for sustainable development. What extent do you think inequality is relevant for the maintenance of environmental systems?

Summary

In this chapter we have defined business ethics and set it within a number of significant contemporary debates. First, we have shown the importance of business ethics to current business theory and practice, suggesting that knowledge of business ethics is vital in the contemporary business environment. Next, we have argued that business ethics has been fundamentally recontextualized by the forces of globalization, necessitating a distinctly global view of ethical problems and practices in business. Finally, we have identified sustainability as a crucial concept that helps to determine and frame the goals of business activities from an ethical perspective. In the rest of the book we shall revisit

Study questions

1. Critically evaluate the proposition that business ethics is an oxymoron.
2. 'Business ethics is of no practical importance to managers. Debates about right and wrong should be left in the classroom.' Critically evaluate this statement using examples where appropriate.
3. What is the relationship between business ethics and the law?
4. 'Business ethics do not really matter to small firm owners. They will get away with whatever they can in order to succeed.' Critically examine why such a view of small firms might be pervasive and whether it is likely to be accurate.
5. What is globalization and why is it important for understanding business ethics? Select one multinational corporation based in your home country and set out the different ways

Key readings

1. Collins, J.W. 1994. Is business ethics an oxymoron? *Business Horizons*, September-October: 1-8.
This paper is very readable and provides a good overview of the challenge facing business ethics. It goes on to identify a route forward that emphasizes the importance of managers in building trust and creating value.
2. Cullum, L., Darbyshire, C.C., Delgado, R., and Vey, P.C. 2005. Executives behaving badly. *Harvard Business Review*, September: 106-7.
Humour is a great way to start thinking about business ethics. This article presents cartoons focusing on the theme of executives behaving badly in the work environment, and provides a good platform for thinking about why the idea that business ethics is

Ethics on Screen

These provide reviews of topical films or TV series selected because they help to bring to life some of the key issues discussed in the respective chapters.

Ethics Online

These provide explanations of how business ethics issues discussed in the chapter have been dealt with on the internet and through social media.

Case Studies

At the end of each chapter is an extended case study that describes the ethical issues faced by well-known companies. They provide an excellent opportunity to use the material covered in the chapter to conduct a critical analysis of a real-life situation.

Think Theory

Throughout the text are call-out boxes that encourage you to stop and think about how the theories discussed in the book apply to real-world examples.

Chapter Summary

The chapter summary provides a brief overview of the issues covered in a particular chapter, helping you to review what you have learned.

Study Questions and Research Exercise

At the end of each chapter we provide readers with the opportunity to test their knowledge and understanding of the material covered so far, in a format commonly used in course assignments and exams.

Key Readings

At the end of each chapter we select two articles that we believe provide the best insight into some of the issues we have discussed. Annotated with helpful comments about their content, these will help prioritize additional reading and research.

HOW TO USE THE ONLINE RESOURCE CENTRE

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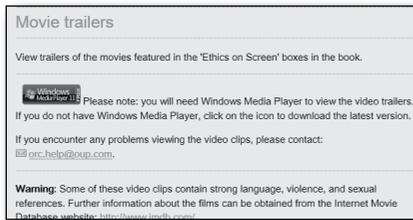
To support this text, there is a wide range of web-based content for both teachers and students.

All of these resources can be incorporated into your institution's existing Virtual Learning Environment.

■ For students

Film trailers

Trailers of movies featured in Ethics on Screen boxes.



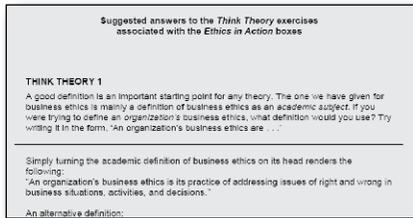
Film list

A chapter-by-chapter list of relevant movies to guide you in learning more about the issues covered in the book.



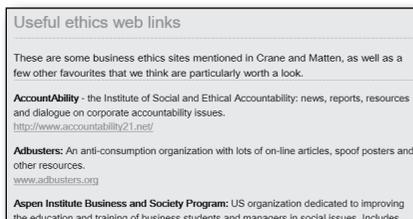
Think Theory solutions

Attempt to answer them yourself and then check your knowledge with suggested solutions for all of the Think Theory questions posed in each chapter.



Annotated weblinks

Links to websites relevant to all of the Cases, Ethics in Action, Ethics on Screen, and Ethics Online features included in the chapters, providing you with the opportunity for exploring issues in more depth and getting updates of latest developments.



Beck, U. 1999. 'What is Globalization?'. Cambridge: Polity Press.
This book provides an overview of the issues related to globalization.

Donaldson, T. 1996. Values in Tension: Ethics Away from Home. *Harvard Business Review* (Sep-Oct): 48-62.
This piece reviews issues related to cross-cultural ethics.

Dunphy, D., Berveniste, J., Griffiths, A. and Sutton, S. 2000. 'Sustainability: The Corporate Challenge of the 21st Century'. Allen & Unwin Academic: New South Wales.
Introduction to sustainability issues from an Australian perspective.

Dunphy, D., Griffiths, A., & Benni, S. 2003. 'Organizational change for corporate sustainability: A guide for leaders and change agents of the future'. Abingdon: Routledge.
"The book brings together global issues of economical sustainability, human resources management, corporate citizenship and community renewal to create a unified approach to global sustainability."

ethics Careers

As a student studying business ethics, you might be interested in pursuing a career involving ethical issues. The appeal is not intractable, a career in ethical business can take the dynamic world of business with a sense of greater meaning and greater contribution to the common good. Moreover, ethical business can bring significant societal and unique problem-solving capabilities to society's most pressing social and environmental problems. Being part of this change can be uniquely rewarding. The great rewards that ethical practice and ethical business can bring are not only financial but also business worth. This has led to a burgeoning field of ethics-oriented careers and a wide array of opportunities for you to pursue. So the job is out there. The challenge is to find an ethics-oriented

Crane and Matten blog

An informed and thought-provoking analysis of what lies behind the headlines and headlines of business ethics and corporate social responsibility

Tuesday, November 22, 2011

The Volkswagen diesel deception - 5 key questions

Have you seen Volkswagen's (VW) energy resources and energy market analysis article? It is a nice way to business ethics to introduce to the fact. It is really nice to understand the recent operations of the related company. It really is a good job to do.

Translate

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Why is business ethics important?

1. Power and influence of business in society
2. Potential to provide major contribution to society
3. Potential to inflict harm

McEthics in Europe and Asia: Should McDonald's extend its response to ethical criticism in Europe?

This case examines ethical criticisms of the UK fast food giant McDonald's, and explores demands for this company to extend their vigorous efforts to restore their corporate credibility in Europe, to markets in Asia. The case focuses on the problems of obesity and unhealthy eating that have confronted the company, which are presented in the context of the broader critique of the chain. These issues cover many of the key concepts around ethics, globalization, and sustainability that we have discussed in Chapter One. It offers a chance to explore the company's actions in Europe and to reflect on their broader application.

Case bank

Access the links below to view the case studies (available in Word format).

- The 'English Patient' and the Chinese takeover: examining social responsibilities in the MG Rover collapse
- School for scandal? Business schools turn their attention to ethics education
- Shell shocker: Is Shell a case of 'ethical epiphany' or 'lessons not learned'?

What is Crane and Matten's definition of sustainability?

a. Sustainability means the capacity of a business to continue over time whilst contributing to the local community and to meet the local requirements in which it operates.

b. Sustainability means that business must extend its goals beyond that of adding economic value to incorporate social, environmental and overall value also.

c. Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

d. Sustainability refers to the long-term sustainability of various activities, to environmental, economic and social considerations.

Course Outline: Business Ethics

Course Aims:

This course explores the ethical challenges facing business today, and how individuals and firms can address these challenges. The course aims to enhance the skills and expertise of participants in through enabling examination of cultural and managerial theory with discussion of common ethical problems in context. Course material includes individual moral theory, the

Recommended reading

Annotated links for additional readings providing you with orientation through the literature in order to enhance your understanding of key conceptual issues and selected applications.

Ethics careers

Information about the careers that are available to you in the field of business ethics.

Crane and Matten blog

Follow the authors' commentary on all the latest business ethics issues and trends, and take the opportunity to contribute your own perspective through online comments.

■ For registered adopters

Powerpoint slides

A full set of chapter-by-chapter lecture slides including all of the main points and figures in the text, fully customizable to suit your own presentation style.

Teaching notes

Suggested answers, teaching suggestions, and further resources for all Ethics in Action features, Ethical Dilemmas, Ethics on Screen, and end-of-chapter Cases.

Case bank

Repository of all the cases (with teaching notes) from the previous editions of Crane and Matten, so that you can still get access to all the tried and tested cases you have used in the past.

Test bank

A ready-made electronic testing resource to help assess your students' learning of the key points in the text. The test bank can be customized to meet your teaching needs.

Sample course outline

A sample course outline for instructors specifying course aims, student skills, weekly subjects, and key readings.

ACKNOWLEDGEMENTS

First off, we would like to thank all the students and fellow instructors who over the years have provided such great feedback in developing the successive editions of *Business Ethics*. We are also grateful to the legions of anonymous OUP reviewers who have taken the time to provide detailed comments and suggestions on the book throughout its four editions. We would also like to thank Angela Brugger, Akhil Kohli, and Sheryl Shibu for research assistance on the new edition.

Our sincere thanks go to the Schulich School of Business for providing us with the time, resources, and support without which the book would not have been possible. We would also like to thank Cameron Sabadoz for all his hard work in updating the Online Resource Centre materials, and David Mba, Stephanie Peca, and Redzep Ferati for assisting with permissions and other administrative details. Others who have provided help are acknowledged at the relevant places in the book. Finally, we would like to thank the team at OUP, especially our dedicated editor Lucy Hyde, as well as Siân Jenkins and Tristan Jones, who were responsible for production and marketing respectively. We are always surprised by how much work each new edition entails for us as authors, but our team at OUP always provides wonderful support and service along the way.

Andrew Crane and Dirk Matten
May 2015

Front cover: A labourer wears rudimentary, homemade goggles to protect his eyes when working on ships at a shipbuilding yard in Dhaka. Workers get around Tk300 (about GBP2.45) per day for working at the yard, where ships are built for domestic and export markets. The Bangladesh shipbuilding industry has been growing in recent years, due in part to its low labour costs. However, as this photo shows, worker safety standards remain a serious concern. For more on different standards of protection for workers in developing countries, see Chapter 7, especially the section on *Employing people worldwide: the ethical challenges of globalization* (pp. 317–324).

Credit: G.M.B. Akash/Panos

Paper: This book is printed on paper that has been accredited by the Forest Stewardship Council. FSC members comprise a diverse group of representatives from environmental and social groups, the timber trade, paper industry, forestry profession, indigenous people's organizations, community forestry groups, and forest product certification organizations from around the world. It is their job to ensure that the forests are managed to protect wildlife habitat and respect the rights of local communities.

All products carrying the FSC Logo have been independently certified as coming from forests that meet the internationally recognized FSC Principles and Criteria of Forest Stewardship. Certification involves inspection and auditing of the land from which the timber and pulpwood originate and tracking it through all of the steps of the production process until it reaches the end user. The Forest Stewardship Council (FSC) is an international non-profit organization founded in 1993 to support the world's forests. It is an example of a business–CSO collaboration, as discussed in Chapter 10. See pages 467–473 for more information.

Unless otherwise stated, all websites mentioned in the text were last accessed on July 27 2015.

PART A

Understanding Business Ethics

- Chapter 1** Introducing Business Ethics
- Chapter 2** Framing Business Ethics: Corporate Responsibility, Stakeholders, and Citizenship
- Chapter 3** Evaluating Business Ethics: Normative Ethical Theories
- Chapter 4** Making Decisions in Business Ethics: Descriptive Ethical Theories
- Chapter 5** Managing Business Ethics: Tools and Techniques of Business Ethics Management

1

Introducing Business Ethics

Having completed this chapter you should be able to:

- Provide a basic definition of business ethics.
- Describe the relationship between business ethics and the law.
- Distinguish between ethics, morality, and ethical theory.
- Evaluate the importance of business ethics as an academic subject and as a practical management issue in organizations.
- Specify ethical challenges in different types of organizations.
- Describe how globalization represents a critical context for business ethics.
- Elaborate on different international perspectives on business ethics, including European, Asian, and North American perspectives.
- Explain how the 'triple bottom line' of sustainability is a key goal for business ethics.

Key concepts and skills:

Concepts

- Business ethics
- Globalization
- Race to the bottom
- Sustainability

Skills

- Defining business ethics
- Comparative analysis of business ethics
- Triple bottom line analysis

■ What is business ethics?

'A book on business ethics? Well that won't take long to read!'

'You're taking a course on business ethics? So what do you do in the afternoon?'

'Business ethics? I didn't think there were any!'

These are not very good jokes. Still, that has not stopped a lot of people from responding with such comments (and others like them) whenever students of business ethics start talking about what they are doing. And even if these are not particularly funny jokes, nor even very original, they do immediately raise an important problem with the subject of business ethics: some people cannot even believe that it exists!

Business ethics, it is often claimed, is an oxymoron (Duska 2000). By an oxymoron, we mean the bringing together of two apparently contradictory concepts, such as in 'a cheerful pessimist' or 'a deafening silence'. To say that business ethics is an oxymoron suggests that there are not, or cannot be, ethics in business: that business is in some way unethical (i.e. that business is inherently bad), or that it is, at best, amoral (i.e. outside of our normal moral considerations). For example, it has been said that the 'game' of business is not subject to the same moral standards as the rest of society, but should be regarded as analogous to a game of poker, where deception and lying are perfectly permissible (Carr 1968).

To some extent, it is not surprising that some people think this way. A long list of scandals have highlighted the unethical way in which some firms have gone about their business. However, just because such malpractices take place does not mean that there are not some kinds of values or principles driving such decisions. After all, even what we might think of as 'bad' ethics are still ethics of a sort. And clearly it makes sense to try and understand why those decisions get made in the first place, and indeed to try and discover whether more acceptable business decisions and approaches can be developed.

Revelations of corporate malpractice should not therefore be interpreted to mean that thinking about ethics in business situations is entirely redundant. After all, as various writers have shown, many everyday business activities require the maintenance of basic ethical standards, such as honesty, trustworthiness, and co-operation (Collins 1994; Watson 1994; Duska 2000). Business activity would be impossible if corporate directors always lied; if buyers and sellers never trusted each other; or if employees refused to ever help each other. Similarly basic principles of fairness help ensure that people in business feel adequately rewarded for working hard rather than being evaluated on irrelevant criteria such as how good they are at golf or how nice their hair is.

It would also be wrong to infer that scandals involving corporate wrongdoing mean that the *subject* of business ethics was in some way naïve or idealistic. Indeed, on the contrary, it can be argued that the subject of business ethics primarily exists in order to provide us with some answers as to *why* certain decisions should be evaluated as ethical or unethical, or right or wrong. Without systematic study, how are we able to offer anything more than vague opinions or hunches about whether particular business activities are acceptable?

Whichever way one looks at it, there appears to be good reason to suggest that business ethics as a phenomenon, and as a subject, is not an oxymoron. While there will inevitably be disagreements about what exactly constitutes 'ethical' business activity, it is possible at least to offer a fairly uncontroversial definition of the subject itself. So, in

a nutshell, we regard the subject of **business ethics** as the study of business situations, activities, and decisions where issues of right and wrong are addressed.

It is worth stressing that by ‘right’ and ‘wrong’ we mean morally right and wrong, as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by ‘business’ ethics, we do not mean only commercial businesses, but also government organizations, pressure groups, not-for-profit businesses, charities, and other organizations. For example, questions of how to manage employees fairly, or what constitutes deception in advertising, are equally as important for organizations such as Wikimedia, Seoul National University, or the German Christian Democrat Party as they are for Facebook, Samsung, or Deutsche Bank (for detailed discussion of ethics in different types of organizations see *Business ethics in different organizational contexts*, p. 15).

Business ethics
The study of business situations, activities, and decisions where issues of right and wrong are addressed.

? THINK THEORY

A good definition is an important starting point for any theory. The one we have given for business ethics is mainly a definition of business ethics as an *academic subject*. If you were trying to define an *organization’s business ethics*, what definition would you use? Try writing it in the form, ‘An organization’s business ethics are . . .’.



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✓ Skill check

Defining business ethics. Establishing what you mean by business ethics is an important skill for managing the issues in practice. Definitions help to provide shared understandings and clarify the scope of what you are trying to achieve.

Business ethics and the law

Having defined business ethics in terms of issues of right and wrong, one might quite naturally question whether this is in any way distinct from the law. *Surely the law is also about issues of right and wrong?*

This is true, and there is considerable overlap between ethics and the law. In fact, the law is essentially an institutionalization or codification of ethics into specific social rules, regulations, and proscriptions. Nevertheless, the two are not equivalent. Perhaps the best way of thinking about ethics and the law is in terms of two intersecting domains (see **Figure 1.1**). The law might be said to be a definition of the minimum acceptable standards of behaviour. However, the law does not explicitly cover every possible ethical issue in business—or for that matter outside of business. For example, just as there is no law preventing you from being unfaithful to your significant other (although this is perceived by many to be unethical), so there is no law in many countries preventing businesses from testing their products on animals, selling landmines to oppressive regimes, or preventing their employees from joining a union—again, issues that many feel very strongly about.

Similarly, it is possible to think of issues that are covered by the law but which are not really about ethics. For example, the law prescribes whether we should drive on the right or the left side of the road. Although this prevents chaos on the roads, the decision about which side we should drive on is not an ethical decision as such.

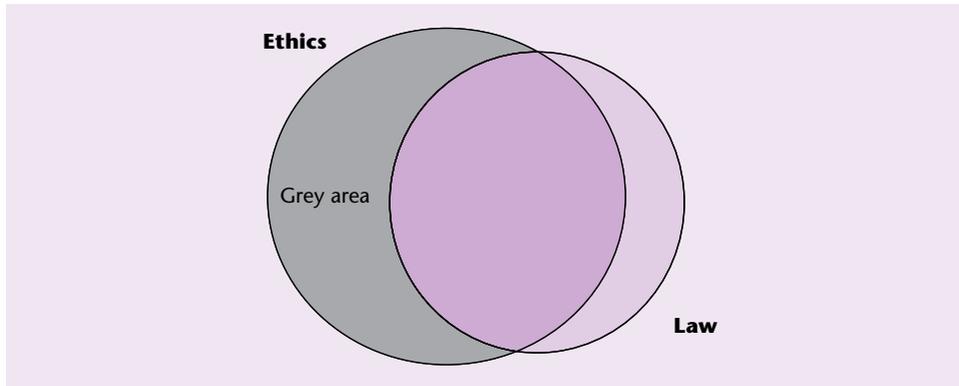


Figure 1.1 The relationship between ethics and the law

In one sense then, business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. Discussion about the ethics of particular business practices may eventually *lead* to legislation once some kind of consensus is reached, but for most of the issues of interest to business ethics, the law typically does not currently provide us with guidance. For this reason, it is often said that business ethics is about the ‘grey areas’ of business, or where, as Treviño and Nelson (2014: 39) put it, ‘values are in conflict’. **An Ethical Dilemma 1** presents one such situation that you might face where values are in conflict. Read through this and have a go at answering the questions at the end.

AN ETHICAL DILEMMA 1

No such thing as a free drink?

Jenna, a good friend of yours who studies at the same university, has been complaining for some time to you that she never has any money. She decides that she needs to go out and find a job, and after searching for a while is offered a job as a bartender in the student bar at your university. She gladly accepts and begins working three nights a week. You are pleased too, not only because it means that Jenna will have more money, but also because it means you will continue to see her regularly—after all, you are a regular customer at the bar!

Jenna enjoys the extra income that the job brings. She also seems to enjoy the work. You are rather pleased with developments since you notice that whenever you go up to the bar, Jenna always serves you first regardless of how many people are waiting.

After a short while though, it becomes apparent that Jenna is not enjoying the job quite as much as she did. Whenever you see her, she always seems to have a new story of how the bar manager has mistreated her. She tells you how she has been

getting the worst shifts, always getting chosen to do the least-popular jobs (like cleaning the washrooms), and being constantly reprimanded for minor blunders that seem to go uncensored for the rest of the staff.

This goes on for a short while and then one day, when you are in the bar having a drink with some of your other friends, Jenna does something that you are not quite sure how to react to. When you go up to pay for a round of four drinks for you and your other friends, she discretely only charges you for one drink. Whilst you are slightly uncomfortable with this, you certainly do not want to lose the opportunity to save some money, or even worse, to get your friend into any kind of trouble by refusing. And when you tell your friends about it, they think it is very funny and congratulate you for the cheap round of drinks! In fact, when the next one of your friends goes up to pay for some drinks, he turns around and asks you to take his money, so that you can do the same trick for him. Although you tell him to get his own drinks, Jenna continues to undercharge you whenever it is your turn to go to the bar.

This goes on for a number of visits. You are happy to get the cheap rounds at the bar but you are not 100% comfortable with what is going on. You decide to at least say something to your friend when no one else is around. However, when you do end up raising the subject she just laughs it off and says, 'Yeah, it is great isn't it? They will never notice, and you get a cheap night out. Besides, it is only what this place deserves after the way I have been treated.'

Questions

1. Who is wrong in this situation—Jenna for undercharging you, you for accepting it, both of you, or neither of you?
2. Confronted by this situation, how would you handle it? Do nothing, or ask Jenna to stop undercharging you? If you take the latter option, what would you do if she refused?
3. To what extent do you think that being deliberately undercharged is different from other forms of preferential treatment, such as Jenna serving you in front of other waiting customers?
4. Does the fact that Jenna feels aggrieved at the treatment she receives from her boss condone her behaviour? Does it help to explain either her actions or your actions?

As we shall see many times over in this book, the problem of trying to make decisions in the grey areas of business ethics, or where values may be in conflict, means that many of the questions we face are equivocal. What this suggests is that there simply may not be a definitive 'right' answer to many business ethics problems. It is often not just a matter of deciding between right and wrong, but between courses of action that different actors, for different reasons, both believe are right—or both believe are wrong. Consider the case of bottled water. Critics, such as *The Story of Stuff Project's* Annie Leonard (2010), argue that it promotes needless consumption, creates waste, and has been deceptively advertised as superior to tap water. Proponents, such as Nestlé, contend that it meets customers' need for convenience, it encourages more healthy lifestyles (by substituting for sugary drinks), and has a low carbon footprint compared to other bottled drinks (Kitts 2013).

With issues such as bottled water, as well as countless others including sweatshop working conditions, executive compensation, or corporate tax avoidance, we can see that business ethics problems tend to be very controversial and open to widely different points of view. In this sense, business ethics is not like subjects such as accounting, finance, engineering, or business law where you are supposed to learn specific procedures and facts in order to make objectively correct decisions. Rather, it is about gathering relevant evidence, and systematically analyzing it through particular lenses and tools (as discussed in more detail in Chapter 3) in order to come to an informed decision that has taken account of the most important considerations. So studying business ethics should help you to make *better* decisions, but this is not the same as making unequivocally *right* decisions. Business ethics is principally about developing good *judgement*.

Defining morality, ethics, and ethical theory

Some of the controversy regarding business ethics is no doubt due to different understandings of what constitutes morality or ethics in the first place. Before we continue, it is important for us to sort out some of the terminology we are using.

In common usage, the terms ‘ethics’ and ‘morality’ are often used interchangeably. This probably does not pose many real problems for most of us in terms of communicating and understanding things about business ethics. However, in order to clarify certain arguments, many academic writers have proposed clear differences between the two terms (e.g. Crane 2000; Parker 1998b). Unfortunately though, different writers have sometimes offered somewhat different distinctions, thereby serving more to confuse us than clarify our understanding.¹ Nonetheless, we do agree that there are certain advantages in making a distinction between ‘ethics’ and ‘morality’. Following the most common way of distinguishing between them:

Morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community.

Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine morally acceptable courses of action. Ethical theories are the codifications of these rules and principles.

According to this way of thinking, morality precedes ethics, which in turn precedes ethical theory (see **Figure 1.2**). All individuals and communities have morality, a basic sense of right or wrong in relation to particular activities. Ethics represents an attempt to systematize and rationalize morality, typically into generalized normative rules that

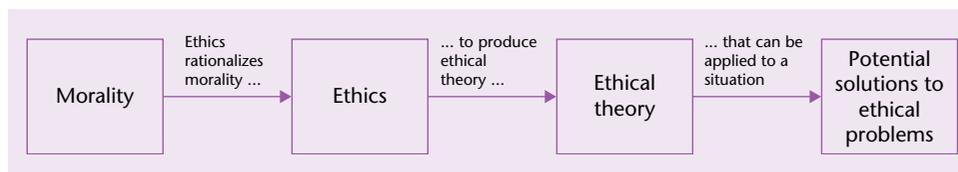


Figure 1.2 The relationship between morality, ethics, and ethical theory

supposedly offer a solution to situations of moral uncertainty. The outcomes of the codification of these rules are ethical theories, such as rights theory or justice theory.

A word of caution is necessary here. The emergence of the formal study of ethics has been aligned by a number of authors (e.g. Bauman 1993; Parker 1998b; Johnson and Smith 1999) with the modernist Enlightenment project, and the idea that moral uncertainty can be 'solved' with recourse to human rationality and abstract reasoning. As we shall show in Chapters 3 and 4, this has come under increasing attack from a number of quarters, including feminists and postmodernists. However, it is important at this stage to recognize that *ethics* is about some form of rationalization of *morality*. The importance of this distinction will hopefully therefore become clearer, and will certainly become more pertinent, as we start to examine these and other theories (in Chapter 3), as well as assessing how they feed into ethical decision-making in business (in Chapter 4). Indeed, contributing to the enhancement of ethical decision-making is one of the primary aims of this book, and of the subject of business ethics more generally. In the next section, we shall briefly review this and some of the other reasons why studying business ethics is becoming increasingly important today across the globe.

■ Why is business ethics important?

Business ethics is currently a very prominent business topic, and debates surrounding the subject have attracted a lot of attention from various quarters, including consumers, the media, non-governmental organizations (NGOs) and, of course, companies themselves. This attention to ethics confronts organizations whatever line of business they might be in.

Ethics in Action 1.1, for example, provides an illustration of how the sex industry has responded to ethical concerns with the emergence of 'ethical sex shops', which have positioned themselves as responsible alternatives to the more seedy operators that the industry is primarily known for.

There are many reasons why business ethics might be regarded as an increasingly important area of study, whether as students interested in evaluating business activities or as managers seeking to improve their decision-making skills. Consider the following:

1. **Business has huge power within society.** Business affects almost every aspect of our lives, and can even have a major impact on the democratic process of government. Evidence suggests that many members of the public are uneasy with such developments. For instance, one recent poll revealed that a large majority of the US population believe that lobbyists (71%), major companies (67%), and banks and financial institutions (67%) have too much power.² This raises a host of ethical questions and suggests we need to find new answers to the question of how we can either restrain this power or ensure that it is used for social good rather than exploitation of the less powerful.
2. **Business has the potential to provide a major contribution to our societies.** Whether in terms of producing the products and services that we want, providing employment, paying taxes, acting as an engine for economic development, or solving complex social problems, business can be a tremendous force for good. How, or indeed whether, this contribution is actually realized in practice goes to the heart of