Corporate Ethics

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Business Ethics: What Does It Really Mean?

Definitions

- **Ethics** involves a discipline that examines good or bad practices within the context of a moral duty
- **Moral conduct** is behavior that is right or wrong
- **Business ethics** include practices and behaviors that are good or bad
Business Ethics: What Does It Really Mean?

Business Ethics: Today vs. Earlier Period

1950s  Time  Early 2000s

Expected and Actual Levels of Business Ethics

Ethical Problem

Society’s Expectations of Business Ethics

Actual Business Ethics

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### Why ethical problems occur in business

<table>
<thead>
<tr>
<th>Reason</th>
<th>Nature of ethical problem</th>
<th>Typical approach</th>
<th>Attitude</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal gain and selfish interest</td>
<td>Selfish interest versus others' interests</td>
<td>Egoistical mentality</td>
<td>&quot;I want it!&quot;</td>
</tr>
<tr>
<td>Competitive pressures on profits</td>
<td>Firm's interest versus others' interests</td>
<td>Bottom-line mentality</td>
<td>&quot;We have to beat the others at all costs!&quot;</td>
</tr>
<tr>
<td>Business goals versus personal values</td>
<td>Boss's interests versus subordinates’ values</td>
<td>Authoritarian mentality</td>
<td>&quot;Do as I say, or else!&quot;</td>
</tr>
<tr>
<td>Cross-cultural contradictions</td>
<td>Company's interests versus diverse cultural traditions and values</td>
<td>Ethnocentric mentality</td>
<td>&quot;Foreigners have a funny notion of what's right and wrong.&quot;</td>
</tr>
</tbody>
</table>
Why should business be ethical?

• Fulfill public expectation for business.
• Prevent harming others.
• Seek profitability.
• Improve business relations and employee productivity.
• Reduce penalties.
• Protect business from others.
• Protect employees from their employers.
• Promote personal morality.
Factors Influencing Ethical Behavior

Leadership

Strategy and Performance

Corporate Culture

Individual Characteristics

Have an ethical day!

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Sources of Ethical Norms

- Fellow Workers
- Family
- Friends
- The Law
- Religious Beliefs
- Regions of Country
- Profession
- Employer
- Society at Large

The Individual
Conscience

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Relations between a business firm and its primary stakeholders

**Figure 1-2**

- **Business firm (Managers)**: Buy products, sell labor, sell materials
- **Wholesalers (Retailers)**: Distribute products
- **Customers**: Buy products
- **Suppliers**: Buy materials
- **Stockholders**: Invest capital
- **Creditors**: Lend money
- **Employees (Unions)**: Sell labor

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Figure 1-3
Relations between a business firm and some of its other (secondary) stakeholders

- **The General Public**
- **Business Support Groups**
- **Local Communities**
  - Positive, negative opinion
  - Advice, research
  - Image, publicity
- **Media**
  - Social demands
- **Business Firm (Managers)**
- **Federal, State and Local Governments**
  - Jobs, environment
  - Regulation, taxes
  - Friendly, hostile
- **Social Activist Groups**
  - Image, publicity
  - Advice, research
- **Foreign Governments**
Developing Moral Judgment

Kohlberg's Levels of Moral Development

**Level 1**
Preconventional Level

- Stage 1: Reaction to punishment
- Stage 2: Seeking of rewards

**Level 2**
Conventional Level

- Stage 3: Good boy / nice girl morality
- Stage 4: Law and order morality

**Level 3**
Postconventional, Autonomous, or Principled Level

- Stage 5: Social-contract orientation
- Stage 6: Universal ethical principle orientation

Focus: Self
Focus: Others
Focus: Humankind

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<table>
<thead>
<tr>
<th>Age group</th>
<th>Development stage and major ethics referent</th>
<th>Basis of ethics reasoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mature adulthood</td>
<td><strong>Stage 6</strong> Universal principles: Justice, fairness, universal human rights</td>
<td>Principle-centered reasoning</td>
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<tr>
<td>Mature adulthood</td>
<td><strong>Stage 5</strong> Moral beliefs above and beyond specific social custom: Human rights, social contract, broad constitutional principles</td>
<td>Principle-centered reasoning</td>
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<tr>
<td>Adulthood</td>
<td><strong>Stage 4</strong> Society at large: Customs, traditions, laws</td>
<td>Society-and-law centered reasoning</td>
</tr>
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<tr>
<td>Early adulthood, adolescence</td>
<td><strong>Stage 3</strong> Social groups: Friends, school, coworkers, family</td>
<td>Group-centered reasoning</td>
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<tr>
<td>Adolescence, youth</td>
<td><strong>Stage 2</strong> Reward seeking: Self-interest, own needs, reciprocity</td>
<td>Ego-centered reasoning</td>
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<tr>
<td>Childhood</td>
<td><strong>Stage 1</strong> Punishment avoidance: Punishment avoidance, obedience to power</td>
<td>Ego-centered reasoning</td>
</tr>
</tbody>
</table>

Elements of Moral Judgment

Amoral Managers

Moral Imagination
Moral Identification
Moral Evaluation
Tolerance of Moral Disagreement and Ambiguity
Integration of Managerial and Moral Competence
A Senses of Moral Obligation

Moral Managers
## The components of ethical climates

<table>
<thead>
<tr>
<th>Ethical criteria</th>
<th>Individual person</th>
<th>Company</th>
<th>Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egoism (self-centered approach)</td>
<td>Self-interest</td>
<td>Company interest</td>
<td>Economic efficiency</td>
</tr>
<tr>
<td>Benevolence (concern-for-others approach)</td>
<td>Friendship</td>
<td>Team interest</td>
<td>Social responsibility</td>
</tr>
<tr>
<td>Principle (integrity approach)</td>
<td>Personal morality</td>
<td>Company rules and procedures</td>
<td>Laws and professional codes</td>
</tr>
</tbody>
</table>

Focus of ethical concern

How to Build in Ethics

- TOP MANAGEMENT COMMITMENT
- MISSION STATEMENT
- ETHICS CODE
- POLICIES/PROCEDURES
- TRAINING
- WHISTLE-BLOWER’S HOTLINE
- ETHICS OFFICER
- INDEPENDENT AUDIT
- DISCIPLINARY ACTION
Codes of Conduct

- Must provide clear direction about ethical behavior when temptation to behave unethically is strongest.
- But, also must leave room for a manager to use his or her judgment in situations requiring cultural sensitivity.
- Intl. managers who are not prepared to grapple with moral ambiguity and tension should pack their bags and come home
How to support ethical decision making in the organization?

- culture, values & programs
- compliance & leadership
- recognition of the role of co-workers & managers
- balancing stakeholder interests
- management of situational pressures
- rewards beyond short-term performance

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Creating an Ethical Corporate Culture

- Core values are not specific enough to guide managers through actual ethical dilemmas.
- Managers should be guided by precise statements that spell out the behavior and operating practices that the company demands.
- 90% of all Fortune 500 companies have codes of conduct.
- 70% have statements of vision and values.
- In Europe and the Far East, the percentages are lower but are rising rapidly.
Business Ethics: It Begins with Leadership

As Leaders, we must do a better job at creating and sustaining organizational cultures that support ethical behavior....
Guidelines for Ethical Leadership

- Treat corporate values and formal standards of conduct as absolutes.
- Design and implement conditions of engagement for suppliers and customers.
- Allow foreign business units to help formulate ethical standards and interpret ethical issues.
- In host countries, support efforts to decrease institutional corruptions.
- Exercise moral imagination.
Two approaches to ethics programs and their effectiveness

Compliance-based programs

• Rooted in avoiding legal sanctions.

• Companies will establish rules and guidelines for employees to follow.

• Emphasizes threat of detection and punishment.

• Assumes employees are driven by self-interest.

• Research evidence shows that employees do care about moral correctness of their actions.

Two approaches to ethics programs and their effectiveness

Integrity-based ethics programs

- Combine a concern for the law with an emphasis on employee responsibility for ethical conduct.
- Establish a climate of self-governance for employees based on general principles as guidelines.
- Employees told to act with integrity and conduct business dealings in an environment of honesty and fairness.
- Employees are thought of as social beings, concerned for the well-being of others.
- Researchers found that these programs fostered lower observed unethical conduct.

kARkter : pola perilaku yang bersifat individual, keadaan moral seseorang.

• Tahap: moral knowing (penget moral), moral feeling (perasaan moral) dan moral action