

# Business ethics

Business essentially consists of economic relationships concerned with the exchange of goods and services. But managers of businesses function within a more complex cultural environment. Key elements within that environment, as Trompenaars (1998; see Chapter 21) wrote, are what cultures consider to be right and wrong and good and bad – issues at the heart of ethics. This chapter sets out to discuss approaches to considering ethical issues and behaviour in business. It does not attempt to state what ‘good’ or ‘ethical’ behaviour is. This would lead into the realms of philosophy, which would pose such questions as who and what determines what is right and wrong. Instead, this chapter sets out a way of evaluating an enterprise’s or an individual’s behaviour in business so that the reader can arrive at his or her own judgements.

Ethical issues are of concern to all managers within an enterprise but particularly to the most senior managers because it is they who create and control the whole environment in which their enterprise functions. At the same time ethical issues are of particular concern to human resource managers because many of the roles of human resource managers are concerned with ensuring that an enterprise functions ethically through the recruitment of the right people, training them in the norms and values of the employer and, particularly, motivating employees in such a way that the employer’s ethical position is not compromised.

The definition of ethical behaviour is very difficult, since it depends upon each individual’s own perceptions of issues within the broader social/moral context.



As Mole (1990; see Chapter 21) writes, ‘There are different degrees of belief as to what constitutes actual wrongdoing. What is illegal need not be unethical and vice versa.’

Some will argue that the law defines what the limit of business behaviour is, whereas others argue that the law merely provides a safety net to prevent the worst excesses only. Some business people will argue that their sole responsibility is to their shareholders and so long as what they do is no different from what their competitors do then nothing is wrong.

At the other extreme are owners and managers who apply very strict ethical standards to everything they do in business, showing consideration for all stakeholders, e.g. owners, managers, employees, customers, suppliers and the wider community. Recent developments here have seen many organizations include statements of corporate responsibility and ethics within mission statements and annual reports. If anything, the public is evermore aware of issues such as ethical or fair trade (the non-exploitation of supplying nations), as it is about financial accounting scandals such as Enron, and other well-publicized cases which brought the topic of managerial ethics and legality to the forefront. The hospitality sector has seen a massive increase in interest in the sourcing of foods, from the organic farming debate to the humane rearing of beef cattle and chickens to supply the huge fast food market.

Hoffman and Frederick (1995) define business ethics as ‘the study of what is good and right for business’ and they suggest three questions. What is the better decision for the business? What is the better decision from a legal point of view? What is the better decision from a moral point of view? This last question, however, poses difficult value judgement questions. In order to determine what is moral or good and right, Steven Hall (1992) of the International Institute for Quality and Ethics in Service and Tourism (IIQUEST) has devised a number of questions which test a manager’s or an organization’s ethical behaviour. These seven questions can be applied to all aspects of running a business.

## Seven tests for ethical business behaviour

These are taken from *Caterers Briefings*, 1994 by permission of Croner Publications.

### 1. *Is it legal?*

The first question to ask, ‘Is it legal?’ Relevant examples in the catering industry include common sharp practices such as short measuring of drinks, substituting products and misleading customers by false descriptions (e.g. ‘frozen’ for ‘fresh’). Overcharging is common as well. How many price lists are hidden so that customers cannot check what a round of drinks should really cost?

### 2. *Does it hurt anyone?*

Many business decisions may be legal but they may hurt people. Obviously some actions will hurt the competition – they are designed to do just that. The mere decision to open a unit somewhere is almost bound to hurt the neighbouring competitors. It is an overt action and it could be argued that if the benefits to the consumer through lower prices, better service, etc., outweigh the damage done to a few competing traders then the behaviour is justified.

Some other activities, however, may be less ethical. Acquiring others’ mailing lists is an example. Spreading damaging rumours about a competitor is another.

Breaching copyright on business products, be they recorded music or computer programmes, is another example.

In some respects this question 'Does it hurt anyone?' may be more valid than the first question, 'Is it legal?' Some activities may be illegal but may not hurt anyone (the concept of the victimless crime). Serving drinks after hours in a small village pub may hurt no one, but it is illegal.

### 3. *Is it fair?*

Whether something is fair or not depends upon a person's own perception of fairness. But probably a good test would be to ask what the other person would think if he or she knew the full facts (see also Question 6). For example, what would customers think if they knew that they were being sold wine, mixers or food left by previous customers?

Other aspects of being fair could include how the business is promoted. For example, is the price list clear? Are there hidden extras so that customers spend much more than they may have expected to spend? Unadvertised hotel telephone charges are an example.

### 4. *Am I being honest?*

Again, honesty, like fairness, is dependent upon a person's own perception of 'honest behaviour'. Honesty may be defined, among other things, as not being deceitful. It is in this sort of area that there are many ethical problems.

How many business people try to close a sale by falsely boosting the scarcity of something – 'we only have one left', 'someone else has already offered so much for it', etc. Such phrases are built into the normal vocabulary of many people concerned with selling, so that additional deceptions come easily.

### 5. *Can I live with myself?*

This question probably poses even more ethical problems than the others. If someone has, over the years, developed a business ethic that encourages sharp practice then, maybe, not only can the person live with himself or herself but he or she may actually celebrate the completion of a sharp deal. This question, however, may be of most relevance to senior managers because it is often they who profess all the ethical objectives of their organization and then apply such pressures to achieve other business objectives, such as sales targets, on the middle and junior managers that the latter cannot behave ethically.

### 6. *Would I publicize my decision?*

This is probably the best of tests of ethical behaviour. If, for example, cheaper products or substitutes are used, would a business advertise the fact? If the service charge is not distributed to the staff, would this be advertised to the world?

### 7. *What if everyone did it?*

The last question is really concerned with what would happen to commerce, maybe an industry or even a whole society, if everyone did the same. Some trades, usually because of the behaviour of a few, over the years have acquired reputations

for dishonesty, making business life more difficult for everyone in those trades. This is the reason that the leading professions have developed codes of practice (see Appendix 5). It is through businesses aiming for and achieving a trustworthy level of service that consumers are made to have faith in an industry, trade or profession.

## What are the ethical issues?

The questions above, just one writer's ideas on how to look at ethical issues, highlight the fact that questions of ethics range through fundamental policy issues such as 'Should we be in the business we are in?' through to straightforward operational issues such as ensuring that customers are not shortchanged. The range of ethical issues includes relationships with

- customers
- employees and managers
- supplies and suppliers
- sources of finance
- the community.

## Customers

As indicated above, most ethical concerns appear to focus on relationships with customers. In many respects this is the easiest area to look at. Questions include the following:

- Are trade descriptions honest and complete or is only limited information given?
- Are customers told about controversial products, e.g. irradiated foods and genetically modified foods?
- Are prices misleading, with hidden extras?
- Are customers misled about past performance?
- Do staff bonus schemes put customers at risk?
- Is customers' ignorance of their rights exploited?
- Are significant facts hidden, e.g. hidden commissions in contract catering?
- Are risks taken with customers' health and safety, e.g. taking risks with food temperatures or fire exits?

## Employees and managers

A major area of ethical concern is how employers treat their employees. One major fast food retailer attracted a lot of adverse publicity when it was found that some branches were offering 'zero hour' contracts, i.e. 'You will be present at the place of work but you will only be paid when you actually work.'

What about equal opportunities – are staff selected and promoted fairly, or are some candidates passed over because of their sex, race, disability or even age (see Figure 4.1)? Is discipline even-handed? There are questions also of job security, dignity and the like. Does an employer try to meet his/her employees' needs in these respects? From the treatment and fairness of young workers to the higher-order considerations of family-friendly policies in attempting to address the so-called

work–life balance and any accusation of exploitation, HRM practitioners are faced with ethical as well as regulatory questions (see Legge, 1998: also Lucas, 2004). Woodall and Winstanley (2001) consider that contemporary HRM, with its emphasis on performance management and strategic alignment (see Chapters 2 and 7), is faced with a set of ethical issues, ‘In particular, the preoccupation with flexibility, commitment, culture, quality and performance’ (p. 41).

What should be of major concern to senior managers is the fact that, though they may profess ethical principles, they often put such pressure on their middle and junior managers that ethical behaviour becomes difficult and often impossible. Just one example will illustrate this – pizza home-delivery target times have caused serious road accidents and even death. Another factor within the hospitality sector may not lead to such a tragic outcome as this latter example but nevertheless is worthy of mention. Particularly with regard to front-line, customer contact roles, the hospitality sector requires its staff to show certain emotions as part of their job, the smiling welcome, the concerned listener to a customer’s problems, the calm response to a vitriolic complaint from an angry, perhaps rude, guest. The need to display such behavioural responses, however contra to the employee’s actual inner feelings, is known as emotional labour, and management need to consider just how much emotional stress and pressure its employees should be required to ‘suffer’ (see Mann, 1997).

Robbins (2005) reports that in the USA there is a significant increase in company training schemes which specifically deal with ethical issues. A survey conducted in the late 1990s found that around 75% of the workers in the 1000 largest US corporations received some level of ethics training. In the UK there has also been an increase in employee awareness of ethical issues and whistleblower protection supported in an attempt to encourage employees to alert external bodies of unethical or illegal practice.

## Supplies and suppliers

The seven questions listed above could also be applied to a business’s supplies and suppliers. These days, caterers and hoteliers are faced with a range of ethical problems concerning supplies. Should a caterer give a customer what the customer wants in spite of ethical considerations. Some animal products – frogs legs and sharks fins – for example, are obtained using very cruel methods. Some methods endanger whole species. Should a caterer offer these or even supply them if asked? Because it is legal to sell crate-reared calves’ products, should caterers sell them or should they seek alternative, more humane supplies as did many restaurateurs during the veal export disturbances of 1995?

When stationery, furniture, etc., is bought, is the source of raw material checked out? Is it from a sustainable source or is it contributing, even in a very minor way, to ecological damage? Are cleaning materials, energy sources and other supplies environmentally friendly? How are the suppliers’ employees treated? Are they treated ethically?

## Sources of finance

Not many business people have a free choice of the sources of finance available. Most smaller- and medium-sized businesses will be obliged to use conventional banks. For various reasons they may be locked into one bank. However, where

choices can be made about finance, the types of questions to be considered will be concerned with how the banks invest their money and from what sources the banks derive their funds and profits. One bank in particular makes a feature of its ethical investment policy.

In other cases a business may have surplus funds for periods of time, which they may invest. This could be in shares of a company, so it should be asked how the company makes its money? Does it conduct itself ethically?

Another source of finance is the taking of credit from suppliers. Are the periods taken as agreed originally or are 'unfair' periods of credit taken? Are smaller suppliers exploited because they cannot afford to lose the business even if credit periods are extended unilaterally?

### The community

Finally, every business operates within a community and it has a responsibility to that community. How it meets these responsibilities varies considerably. Most hospitality businesses contribute to their community life in ways that bring many benefits. Others, however, can bring considerable problems such as late-night noise, litter and violence. At the time of writing, there is a hot topic concerning 'binge drinking' caused in part by cheap alcohol offers in pubs and the ensuing anti-social and often violent behaviour in town centres. The Government, police and licensed retailers will need to liaise effectively and with some degree of ethical consideration for the local community whose domesticity may be upset by such outcomes.

The community creates a whole range of laws and regulations covering taxation, planning, building, food safety, waste disposal, noise, pollution, fire precautions and licensing. Are these adhered to or are they ignored, putting people's comfort, health and maybe lives at risk?

Ethical and environmental issues are increasingly coming to the forefront of business generally and within the hospitality industry as well. The HCIMA, along with most other professional bodies, has a code of conduct (see Appendix 5). It has recently embarked on a major survey of environmental management practices in the hotel and catering industry and the Prince of Wales Trust has funded the International Hotels Environmental Initiative.

Many public companies now produce annual reports describing how they are meeting various environmental and social responsibilities. McDonald's, for example, participates in the National Spring Clean campaign and in 1989 they set up the Ronald McDonald Children's Charities. Among other things this charity funds 170 Ronald McDonald Houses which provide free accommodation to the families of children in hospital. Other companies such as BP Amoco, the Body Shop, P & O and companies in the hospitality industry report annually on their environmental and social initiatives. An interesting conflation of product policy and ethical behaviour is exemplified by the Pret a Manger coffee shop and takeaway group. Their strategic concern for quality baguettes and the like mean that the shelf life of a filled roll, e.g. tuna and sweetcorn baguette, is limited before it becomes somewhat less appetising, even soggy, and fails the quality test. Such products are removed from the shelves. As these products are still perfectly safe and healthy foods, Pret a Manger has purchased refrigerated vans which collect the unsold products from all their outlets and then distribute free of charge to centres for the homeless and other charitable institutions.

At the international level ethics and ethical issues become even more complex. As Mole (1990) writes, 'Values differ from country to country . . . conventions of behaviour can be misinterpreted . . . normal practice can engender mistrust. Faced with such diversity the best course is probably to reserve ethical judgement for one's own behaviour and suspend it when looking at others.'

## Further Reading and References

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## Questions

- 1 Describe a business's key stakeholders and the ethical considerations which can enter into the relationships between the business and the stakeholders.
- 2 Discuss using examples Steven Hall's test for ethical behaviour in business.
- 3 What are the key ethical considerations in the employment relationships? (You may find several of the following appendices of use in answering this question.)
- 4 Evaluate the ethical behaviour of an employer with which you are familiar using the key stakeholders as a basis.
- 5 To what extent do public companies' social responsibility statements accord with their actual behaviour?