

74 characteristics. Similarly, when 1,000 CEOs and other top-level executives around the world were asked to list the most important attributes of effective leaders, the most frequently mentioned characteristic was *integrity*—the leader's ethical standards.⁶⁰ These surveys reveal the importance of ethics in the workplace. *Ethics* refers to the study of moral principles or values that determine whether actions are right or wrong and outcomes are good or bad (see Chapter 1). People rely on their ethical values to determine “the right thing to do.”

Three Ethical Principles

To better understand business ethics, we need to consider three distinct types of ethical principles: utilitarianism, individual rights, and distributive justice.⁶¹ Your personal values might sway you more toward one principle than the others, but all three should be actively considered when making decisions.

- *Utilitarianism*. This principle says the only moral obligation is to seek the greatest good for the greatest number of people. In other words, we should choose the option that provides the highest degree of satisfaction to those affected. One problem is that utilitarianism requires a cost–benefit analysis, yet many outcomes aren't measurable. Another problem is that utilitarianism could justify actions that other principles would consider immoral because those means produce the greatest good overall.
- *Individual rights*. This principle says that everyone has the same set of natural rights, such as freedom of speech, freedom of movement, right to physical security, and right to fair trial. The individual rights principle extends beyond legal rights to human rights that everyone is granted as a moral norm of society. One problem with this principle is that some individual rights may conflict with others. The shareholders' right to be informed about corporate activities may ultimately conflict with an executive's right to privacy, for example.
- *Distributive justice*. This principle says that the benefits and burdens of similar individuals should be the same; otherwise they should be proportional. For example, employees who contribute equally in their work should receive similar rewards, whereas those who make a lesser contribution should receive less. A variation of this principle says that inequalities are acceptable when they benefit the least well off in society. The main problem with the distributive justice principle is that it is difficult to agree on who is “similar” and what factors are “relevant.” We discuss distributive justice further in Chapter 5.

“It takes many good deeds to build a good reputation and only one bad one to lose it.”

—Attributed to Benjamin Franklin



Utilitarianism, individual rights, and distributive justice are three ethical principles that should be considered when making decisions.

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Moral Intensity, Moral Sensitivity, and Situational Influences

Along with ethical principles and their underlying values, three other factors influence ethical conduct in the workplace: the moral intensity of the issue, the individual's moral sensitivity, and situational factors.⁶²

Moral Intensity *Moral intensity* is the degree to which an issue demands the application of ethical principles. Decisions with high moral intensity have strong ethical implications that usually affect many people, so the decision maker needs to carefully apply ethical principles to make the best choice. The moral intensity of a situation is higher when (a) the consequences of the decision could be very good or bad, (b) there is high agreement by others that the decision outcomes are good or bad, (c) there is a high probability that the good or bad outcomes will occur, and (d) many people will experience the consequences of the decision.⁶³

Page 44

Moral Sensitivity *Moral sensitivity* (also called *ethical sensitivity*) is a characteristic of the person, namely his or her ability to detect a moral dilemma and estimate its relative importance.⁶⁴ People with high moral sensitivity can more quickly and accurately estimate the moral intensity of the issue. This awareness does not necessarily translate into more ethical behavior; it just means that people with higher moral sensitivity are more likely to know when unethical behavior occurs.

Several factors are associated with a person's moral sensitivity:⁶⁵

- Expertise or knowledge of prescriptive norms and rules. For example, accountants are more morally sensitive regarding specific accounting procedures than are people who lack experience in this profession.
- Previous experience with specific moral dilemmas. Past incidents likely generate internal cues that trigger awareness of future ethical dilemmas with similar characteristics.
- Ability to empathize with those affected by the decision. On average, women have higher moral sensitivity compared to men, partly because women tend to have higher empathy.
- A strong self-view of being a morally sensitive person.⁶⁶ Employees who strongly define themselves by their moral character (called their moral identity) tend to have higher moral sensitivity because they put more energy into maintaining ethical conduct.
- A high degree of situational mindfulness.⁶⁷ **Mindfulness** refers to a person's receptive and impartial attention to and awareness of the present situation as well as to one's own thoughts and emotions in that moment. Mindfulness increases moral sensitivity because it involves actively monitoring the environment as well as being sensitive to our responses to that environment. This vigilance requires effort as well as skill to receptively evaluate our thoughts and emotions.

Situational Factors Along with moral intensity and moral sensitivity, ethical conduct is influenced by the situation in which the conduct occurs.⁶⁸ Some employees say they regularly experience pressure from top management that motivates them to lie to customers, breach regulations, or otherwise act unethically. Situational factors do not justify unethical conduct. Rather, we need to be aware of these factors so organizations can reduce their influence.



People with high moral sensitivity can more quickly and accurately estimate the moral intensity of the issue.

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Supporting Ethical Behavior

Most large and medium-sized organizations in the United States and other developed countries maintain or improve ethical conduct through systematic practices. One of the most basic steps in this direction is a code of ethical conduct—a statement about desired activities, rules of conduct, and philosophy about the organization's relationship to its stakeholders and the environment.⁷⁰ These codes are supposed to motivate and guide employee behavior, signal the importance of ethical conduct, and build the firm's trustworthiness to stakeholders. However, critics suggest that they do little to reduce unethical conduct.

Another strategy to improve ethical conduct is to train and regularly evaluate employees about their knowledge of proper ethical conduct. Many large firms have annual quizzes to test employee awareness of company rules and practices on important ethical issues such as giving gifts and receiving sensitive information about competitors or governments. In some firms, employees participate in elaborate games that present increasingly challenging and complex moral dilemmas. An increasingly popular practice to improve ethical conduct is an ethics telephone hotline and website, typically operated by an independent organization, where employees can anonymously report suspicious behavior. A few very large businesses also employ ombudspersons who receive information confidentially from employees and proactively investigate possible wrongdoing. Ethics audits also are conducted in some organizations but are more common for evaluation of corporate social responsibility practices.⁷¹

Training, hotlines, audits, and related activities improve ethical conduct to some extent, but the most powerful foundation is a set of shared values that reinforces ethical conduct. As we describe in Chapter 13 (organizational culture), an ethical culture is supported by the conduct and vigilance of corporate leaders. By acting with the highest moral standards, leaders not only gain support and trust from followers; they role-model the ethical standards that employees are more likely to follow.⁷²