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**BUSINESS ETHICS**

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**BUSINESS ETHICS**

**INTRODUCTION**

Ethics is a branch of philosophy that is about morality.

Ethics refers to the concepts of right and wrong conduct. Examples of ethics are professionalism, effective communication, respect for others, trust, adherence to the company's rules, accountability, and integrity.

Business ethics is therefore a set of values, standards, and principles that guide behavior in business to maintain a healthy balance. Business ethics is a way of setting organizational values, laws, and rules.

The work of ethics is to reach a rational consensus. This means that one must have a consistent rationale; must be consistent with their goals, and must be consistent with who they are. This consistency makes one grow exponentially as illustrated in the diagram below:



Therefore, in ethics, compliance is voluntary, law enforcement is enhanced to the infringed, business organizations follow company law, the society follows religious traditions and common law, and the balance is dependent on an individual.

**Values**: are a set of principles and beliefs. Businesses set core values that elaborate on the company's mission and vision statements. Every business decision must be aligned with the core values that shape its vision and culture. Simon Sinek in Haiilo blog, (2022) asks, "How can you build great teams, deliver excellent customer service, and foster innovation if you haven't defined and shared your company values with your employees?" examples of business values are integrity, fairness, customer experience, accountability, teamwork, and ownership.

**Standards**: are specifications, codes, guidelines, definitions, and practices that are written by a business to be adhered to. Examples of business standards include the memorandum and articles of association; this document is mandatory for any registered limited company. A partnership deed is used for the partnered businesses where two partners start a business jointly; it guides the partners and the business on the set operational rules.

Business standards mean “an agreed way of doing something.” This is according to BSI (2022).

**Principles**: are rules that guide an organization, department, or team on future decisions. These principles address organization, strategy, customer experience, and satisfaction. Examples of business principles include industry and competitors knowledge; high-quality product; defined goals; qualified team; organizational structure; products or services promotion; operational systems and processes knowledge; customer prioritization; finance and accounting knowledge; and strategic capital management.

**ETHICS OF BUSINESS CULTURE**

Business culture is a moral responsibility for the structures and processes in organizations. Organization structures define how activities are coordinated, shared, and supervised to attain the company’s goals and, objectives.

**Structures include explicit strategic principles**: They communicate the company's vision, mission statements, and objectives. These should be short, simple, actionable, and emotionally clear. The explicit strategies should outline policies for firing, hiring, promoting, and operations.

**Conscious judgment and decision making**: The organization should coordinate, and supervise employee recruitment, set standard operating procedures around hiring, and enhance adherence to human rights. The human resource departments should observe equality, inclusivity, and a merit-based system when recruiting. The organization should also implement individual accountability for performance, and reprimand.

**Organizational incentives**: Companies should set a standard way of appreciating the employees. Incentives motivate positive behaviors. Examples are tuition reimbursements, time offs, flexibility in work arrangements, recognition, participation in decision making, professional developments, gifts, and bonuses.

**Cultural norms**: 'are shared beliefs, thoughts, and behaviors within a specific cultural and social group.' Employees surrounded by coworkers who lie, cheat, and steal, most likely do the same. The cultural norm is affected by "descriptive norm" which is translated as thinking and doing the same thing. Another thing that influences cultural norms is 'social influence'; that means an individual conforms to fit in social status. Social influence is, therefore, a change of behavior, beliefs, and attitudes caused by other individuals.'

Negative cultural norms that affect business ethics include concealing important information, cheating customers, financial corruption, offering illegal loans, foreclosures, pyramid schemes, and sexual harassment.

Organization processes are defined as sequences that establish the goals. Some processes include recruitment, directors-employees relationship; micropolitics, freedom of conscience, right to speak up, and set rules of employee firing. Every business should have well-defined processes.

Business ethics old trends were analyzed as follows by Scott Rae and Kenman Wong (2004): “Before 1960, business ethics was conducted as per the religion; then in 1960s ethics became anti-business. In the 1970s, the consumer bill of rights was introduced applying that 'customer is always right.' A safety measure for general motors was also introduced with an Act of 'unsafe at any speed': In 1967 and 1968, Wholesale meat and radiation control for health and safety Acts were enacted respectively. In 1972 and 1976, clean water, and toxic substance Acts were enacted.

Business ethics continued to make changes and in the 1980s & 1990s, the Defense industry initiative on business ethics and conduct (DII) was enacted in 1986 to implement business practices, policies, ethical compliance, and guidelines for industrial organizations.

Federal Sentencing Guidelines for Organizations were introduced in 1991 to provide just punishment. In the 2000s Sarbanes – Oxley Act (2002) was introduced to protect investors from fraudulent financial reporting. For instance securities fraud is punishable by law, and is a criminal offense.”

The importance of business ethics is to promote customer satisfaction and financial performance. It increases productivity and overall employee morale making them inclined to stay loyal. Business ethics also promote a company's reputation in the surrounding making it paramount for the investors to buy its stock and support its operations.

**ETHICS IN A GLOBAL ECONOMY**

Global ethics fundamentally deals with real-world practices to make the world more just, and overcome exploitation, and injustice. Issues facing global ethics include poverty, terrorism, and climate change.

Examples of global ethics are human rights, global justice, research ethics, and environmental ethics.

Global economy ethics is determined by **two aspects** which include:

**Moral Universalism**: Is defined as a system of ethics applying to all people regardless of race, color, nationality, religion, and culture. The principles apply to every nation, person, jurisdiction, and locality. Examples of moral Universalism are religions, philosophies, and cultures.

**Moral relativism**: Is defined as ethics applying to people differently according to their cultures, and societies, and is not absolute. Examples include food choices - eating beef is moral in America but immoral in India, dressing codes – wearing shorts for women are moral in America but immoral in Iran and Saudi Arabia, and drinking alcohol is moral in America but immoral in Middle Eastern Islamic countries.

***Comparison between moral universalism and relativism:***

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| **Moral universalism** | **Moral relativism** |
| Moral principles apply to all people. | Moral values and standards are culturally defined. |
| There is global convergence in international codes and practices. | Morality is different in different individuals, nations, contexts, and societies. |
| Ethical principles apply to all people. | Norms and practices arise from certain contexts. |
| There are absolutes. | There are no absolutes and tolerance. |
| The community should judge other individuals and societies with reason and with sympathy and understanding. | Different communities should not judge other individuals and societies. |

Disadvantages of cultural relativism in the global economy: **Absolute cultural relativism** allows the practice of activities within a culture, whether weird or dangerous and should not be questioned by other cultures. **Critical cultural relativism** questions why those activities are practiced by addressing those in charge.

Adrian Ridner and Ben Wilson (2018) gave examples of how cultural relativism is practiced in some cultures; “Chinese in the 19th and 20th centuries were tying lady's feet to inhibit its growth as a sign of beauty; Mursi women in Ethiopia cut their lower lip and extend it with a round plate. This is considered a symbol of identity and beauty for women. The cutting of the lower lip happens when a girl turns 15 or 16; critical cultural relativism is when the residents of Spain practice El Colacho, which is a baby-jumping ritual practiced since 1620; they believe that it chases away the devil and keeps babies safe."

**MORALITY OF CAPITALISM**

Capitalism is defined as private ownership of the economy such as production, and business operation for profit gain without government intervention.

The morality of capitalism and its importance include encouraging private ownership, free enterprise, economic efficiency, customer-wide choices, economic growth, equality, controlled prices through supply and demand, talents and skills, competition, freedom of choice, and business' profits. This means that private owners control the capital, price, market scale, properties, securities, and wage labor. The legal designation is not controlled by the government.

Capitalism is moral because it promotes competition which causes a decrease in prices thereby enhancing competitors to improve on goods, and services.

Capitalism also generates wealth which creates jobs, improves the quality of life, and enhances a clean environment. Wealth creation improves the standard of living in any nation. The wealthiest nations have better infrastructure, stronger buildings, safe drinking water, a good economy, and the best environment.

 According to Spencer J Pack (2010), “Capitalism dates from 16th century in Europe as was expressed by philosopher Adam Smith (1776), when the cloth industry developed capital to enlarge production and stopped investing in the unproductive enterprises.' In the 18th century, Europe revolutionized industrialization, 'in An Inquiry into the Nature and Causes of the Wealth of Nations.' In the 19th century, Spencer J Pack (2010) stated that 'Europe developed policies that promoted political liberalism which opened the way for free global trade and sound money."

According to Karl Marx (1992), "world war I of the 1930s led to mismanagement of national currencies, closed global trades, and depressed economy. " He criticized capitalism that it would lead to communism – where the government owns every property and takes control of the economy.

Modern capitalism is the growth of managerial, administrative, and professional occupations. This means that managers and professionals are regarded more highly than manual workers and the same applies to the difference in wages, security of employment, career prospects, and workplace liberty.

The United States, the United Kingdom, and Germany are examples of modern capitalist countries with mega-corporations owned by private individuals and institutions. Minimal government intervention and protection of private property rights have enabled the creation of mega companies. Companies like Coca-cola, Apple, and Vodafone, are examples of capitalism.

***Comparison between moral capitalism benefits and critics***

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|  **Benefits*** Capitalism promotes wealth thereby boosting economic growth.
* It enhances business competition enabling regulated prices.
* The customer has wide varieties and choices to select from.
* It promotes skills and expertise in sales, and marketing due to the high mobility.

  |  **Critics*** It is profit-oriented which is a short-term gain limiting long-term business value, and wealth maximization.
* It allows deceit towards customers with substandard products due to high competition.
* Due to wide varieties, customers end up losing a lot of time in selection.
* It promotes employee discrimination, and job losses while pushing for profit margins.
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**SOCIAL RESPONSIBILITIES FOR CORPORATIONS**

Social responsibility for corporations is the responsibility of the organization to help the society and community that surround it.

Business profit is the main determinant factor for social responsibility. Corporations’ social responsibilities (CSR) are broken into four categories:

**Environmental:** companies embrace environmental responsibility by; reducing pollution through plastic recycling thereby reducing greenhouse gas emissions and energy. Conserving water consumption saves energy. Reducing and recycling waste by turning it into other materials to reduce air pollution, and save the environment. Corporations offset negative environmental impacts by planting trees, funding research, and donating to related causes.

**Philanthropic:** This is awarding money to the society by the businesses. Businesses award the society through donations to orphanages, charities, and non-profit organizations. This supports the vulnerable community by helping a cause, an animal, or a person.

**Ethical:** This is a moral principle of a business to stakeholders, investors, employees, suppliers, and customers. According to Tim Stobierski(2021), "business might require that products, ingredients, materials, or components be sourced according to free trade standards." Different organizations can set their reward policies for their employees; for instance awarding bonuses to marketers, who achieve their targets, awarding employees with free shopping vouchers during holidays, and setting wage limits higher than the competitors.

**Economic responsibility:** Is making financial decisions to benefit the environment, people, and society. Examples include signing customer contracts to maintain sustainability where customers consume goods, and services on credit and pay after an agreed term, supplier contracts with agreeable purchase levels, and transparency regulation of salaries.

Maria Kielmas (2019), said that CSR has its challenges and has not been well adopted in developing, and poor countries. She said that "CSR is expensive costs money to implement and is impossible for small businesses with 10 to 200 employees. She also stated that CSR conflicts with the profit motive of the executives to managers with intention of maximizing profits; hence considering CSR as an expense that leads to losses. "

CSR help strengthens customer trust and public respect and leads to sustainable business practice, fair pay, and ethical employee treatment that drive retention. It is also a powerful marketing tool that drives business innovation.

**ADVERTISING**

Advertising is defined as a marketing communication that promotes services, products, and ideas to encourage buying behavior from customers.

Advertising ethics mean that every business must be truthful, observe social responsibility, and uphold human dignity. A business must adhere to set principles that govern the way marketers advertise to the public. Advertising ethics mean that a business should treat buyers fairly as target audiences while advertising its products, services, or ideas.

According to Jason Gordon (2021), 'advertising has benefits to both the company and the society if done ethically through marketing.' He stated that marketing ethics promote, "business reputation, customer satisfaction, and loyalty, increased sales, improved fairness and equity leading to the standard of living for customers."

**Cons of unethical advertisement**

1. Misleading messages destroy business credibility.
2. Promoting different controversial products such as pesticides, gambling, knives, alcohol, and tobacco can be very dangerous to children.
3. Advertisements that are sexually provocative explicitly and implicitly have a negative influence on society.
4. Advertisements may cause arguments in diverse religions, genders, ethnic, races, and people with disabilities. This may cause racism, gender exploitation, ethnicity, discrimination, and sexual exploitation.
5. Unethical marketing causes fear, threats, and guilt.

**THE ENVIRONMENT AND ECONOMIC GROWTH**

Economic growth is the increase of output and consumption resulting in increased gross domestic product. Environmental ethics on the other hand is the study of the moral relationship of human beings to the environment.

According to Tejvan Pettinger (2021), "Economic growth means an increase in real output (real GDP). Therefore, with increased output and consumption we are likely to see costs imposed on the environment. The environmental impact of economic growth includes the increased consumption of non-renewable resources, higher levels of pollution, global warming, and the potential loss of environmental habitats."

Economic growth such as consumption of non-renewable resources – such as coal and oil, urbanization, and pollution are the major causes of environmental devastation.

Other factors that cause environmental impacts include urbanization, climate change, overuse of groundwater, and natural disasters. Rural-urban immigration is an environmental problem in the developing and poor countries which causes over-population that results in slams. Slams are the major cause of insecurity in the urban due to poverty since most of the dwellers are jobless.

Another factor that affects the environment and economic growth is the lack of clean water. Forests purify water, once deforestation occurs, there is no clean water and when it rains, floods are experienced due to weakened soil. Floods wipe off infrastructure thereby devastating the economy. The environment experienced floods and dry seasons proliferate that impact human livelihoods.

Climate change also affects economic growth. Good policies should be emulated to combat the change in the climate. Large minerals are extracted from the ground through mining due to demand by industries causing pollution and deforestation – in the process, the soil is damaged causing aridity. Reforestation is the solution that enhances trees to store carbon dioxide and reduce global warming thereby contributing to maintaining a natural balance.

Environmental protection enhances economic growth. According to Steve Cohen (2020), "environment and economic growth started in the 1980s in the United States of America when Environmental Protection Agency (EPA), was formed at a time when in New York people dumped sewage waste into Hudson River. The agency was formed to control and treat the sewage waste; Steve added that sewage waste treatment helped to clean the Hudson River."

With the global rising developments and infrastructure, nations should protect the environment by addressing the harmful effects of pollution. Also, economic growth caused by improved technology can enable higher output with less pollution. Implementation of government policies and regulations with proper guidelines should be emulated to govern the people on proper groundwater drafting methods and best practices for agriculture.

Having clean air and water, healthy food, and a protected environment result in economic benefits. Air cleaning technologies such as electrostatic precipitators, selective catalytic reduction systems, and fabric filters serve the purpose of air pollution prevention.

Education is a major factor in promoting environmental ethics and economic growth. AIU has developed an initiative in reviewing the UN's sustainable development goal for 2030 and training the students through research courses on how to preserve the ecosystem.

 "Economic growth is closely linked to increases in production, consumption, and resource use and has detrimental effects on the natural environment and human health. It is unlikely that a long-lasting, absolute decoupling of economic growth from environmental pressures and impacts can be achieved at the global scale; therefore, societies need to rethink what is meant by growth and progress and their meaning for global sustainability." The European Environment Agency (EEA) (2021)

**THE ETHICS OF INSIDER TRADING, MERGERS, ACQUISITIONS**

**Insider trading**: Is defined as buying and selling of the company's stocks and securities by individuals who have precise confidential information about that company.

**Mergers**: Are defined as two different companies joining together. The ownership of the two companies is consolidated and merged.

**Acquisitions**: It means that one company takes over another company's ownership with the full mandate of operations, asset ownership, and responsibility.

Ethical issues that affect insider trading include ‘conflicting rights, differing cultural norms, and inequalities across market participants:’ When the rights conflict, legal balancing encompasses procedural and substantive law requirements. Differing cultural norms can be resolved by each individual identifying that they are the bearer of a multiple and complex identity that makes them unique beings. Inequality across market participants is due to the violation of the principle of transparency in insider trading, which is a major factor in capital market activities. In Kenya, MWC Legal (2019) said that "Insider trading is described as an unfair and unconscionable practice that discourages a free market economy."

Insider trading in Kenya is illegal. The Capital Markets Authority is licensed under the ‘Capital Markets Act, Chapter 485A of the Laws of Kenya’ to supervise, license, and monitor the activities of market intermediaries and securities, and imposes severe penalties on persons and companies found liable for insider trading.

According to Lighthouse services (2019), "Mergers & acquisitions cause 21.5 percent increase in misconduct during restructuring." Mergers and acquisitions experience challenges including overpayments, lack of due diligence, lost trust from stakeholders, overstated synergies, and targeting the wrong companies.

In mergers and acquisitions during the pre-acquisition phase, culture contributes to the successful merging of ethics and compliance.

Successful mergers must observe the following:

Culture and objective of the merger; the role of managers and other employees in the acquired and newly formed organization; time-span of acquisition implementation; compliance structure such as training procedures, audit practices, and hotlines; system integration; established concise policies and procedures; proper communication of how misconduct, behavior, confidentiality, and workplace rights should be addressed.

**INDIVIDUAL MORAL RESPONSIBILITY IN ORGANIZATIONS**

A morally responsible person is someone liable to a response regarding others which is measured by attitudes of gratitude and resentment. A moral person is also a person who is accountable for their behavior, and is answerable to any query concerning their ethics.'

In organizations, corporate behavior is affected by the characteristics of individuals and the company as a whole. Both the individual and the company are held morally accountable for their behaviors. In the corporate world, “a company is a separate legal entity from its members” with full responsibility of being legally accountable for its legal obligations. An individual must observe integrity, accountability, respect, and adhere to the company's values to achieve its objectives. The organization should provide a conducive environment; pay employees promptly, treat employees fairly, and have good customer service. It should also create a good relationship with the suppliers and pay them on time.

The company's culture sets a good example of the importance of moral responsibilities. The top leadership of the company set the tone for moral expectations by the way they act, behave; make decisions, thereby influencing the standards of the company.

Ethical companies have higher employee engagement, discretionary effort, and results in efficiency. They also encourage teamwork which encourages moral climates. This is because teamwork is a strength, and through teamwork there is cooperation.

 **CREATING AND ENCOURAGING MORAL CLIMATES**

Climate morals are beliefs that employees perceive as reality. These perceived beliefs are influenced by the top leadership of the organization; for example directors, board members, and managers. The shared perception shape behavior and attitudes and shape the culture in the organization.

**How moral climate is influenced:** Employees embrace rewarding strategies than policies and decisions that are implemented, and the effort of achieving them is never appreciated. The outcome and decision-making of the top leadership of any company determine policy and organizational priorities. Therefore, moral reasoning should be adhered to promote a moral climate in the business.

**A moral climate can be promoted through the following**:

1. By setting the organization's memorandum and articles of association, mission and vision statements, and company's values and objectives. These documents should state clearly the functions of the directors, shareholders, managers, and employees.
2. By restructuring human resources, and accounting systems and processes to align with the Company's strategy and values.
3. By monitoring data through proper accounting systems to influence effectiveness, and promote risk management by curbing any misappropriation and fraud.
4. By modeling the morals of the senior leaders to surpass the same to the very junior staff. For example, disrespectful behavior in the boardroom should be condoned and the culprit held accountably.

Dr. Judith MacCormick and Dr. Hilary Armstrong (2020) said that, “moral climate is influenced by the board and directors in the way they set the purpose and values and how they model in their actual behaviors and decision-making.”

**CONCLUSION**

In business ethics, every business should have a code of conduct, reward ethical behavior, have a system for reporting unethical behavior, encourage discretion with sensitive information, have a dress code, respect co-workers, report any conflicts of interest, and should provide further ethics training to its employees and shareholders. The more a company is perceived as moral, and socially and environmentally responsible, the more successful it is.

Business ethics in finance and accounting entails fairness, integrity, honesty, justice, and truthfulness. Upholding ethical standards in finance and accounting, one must be skillful, gain education, and hold high moral standards in economic, corporate, and business activities. This helps resolve all sorts of unethical acts and interests.

The rule of law is fundamental to the business in the global marketplace. However, to achieve higher standards of behavior, we need to align business decisions moral climates, individual moral responsibility, environment, and economic growth, ethical advertising, Social responsibilities for corporations, moral capitalism, business ethics, and an ethical global economy.

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