

Lisbon School of Economics & Management
Universidade de Lisboa

Master's in Accounting

Sustainability, Accountability and Ethics

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Class 11

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Lisbon School of Economics & Management
Universidade de Lisboa

Business Ethics – main theories and dilemmas

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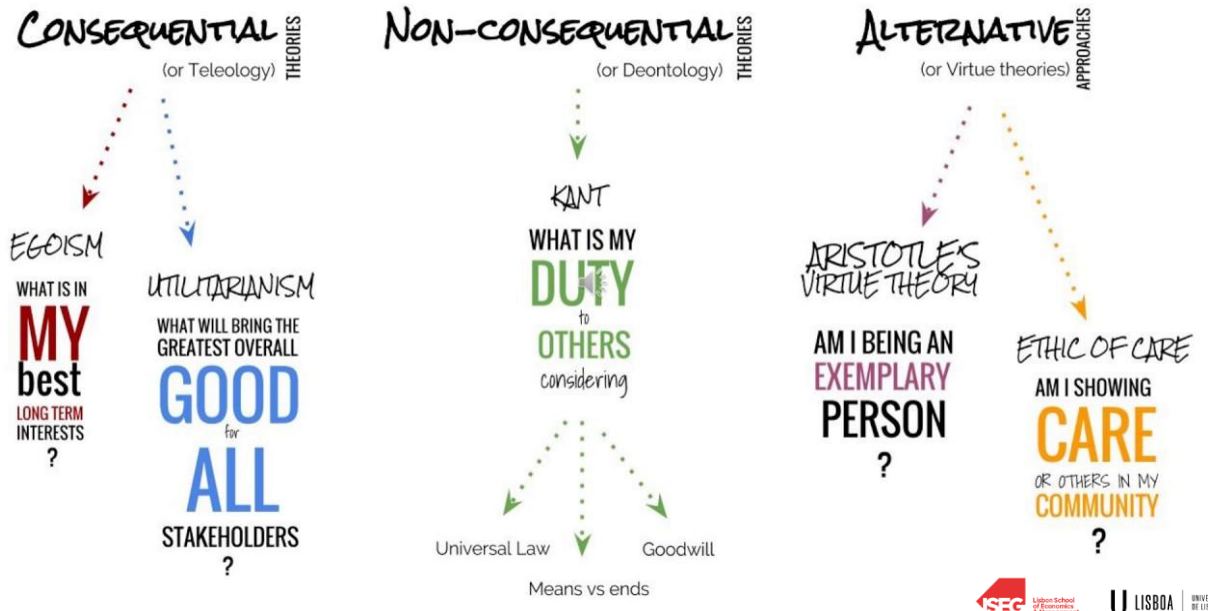
Ethics Theories

(based on the slides of Prof. Maria João Guedes, 2024)

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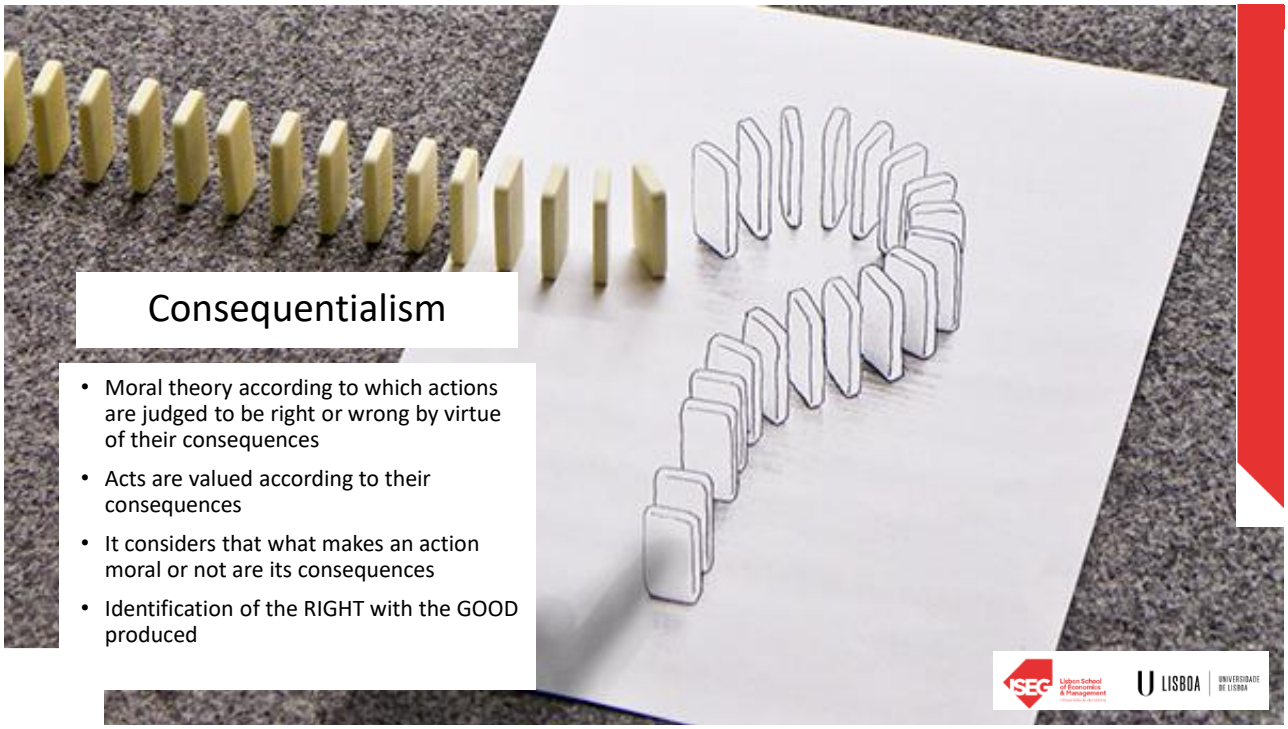
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Theory	Main Idea	Islamic Perspective
Relativism theory	Ethics are relative to a particular environment. Different societies may have different ethical codes. There is no universal truth in ethical principles that can be held by all peoples at all times.	Rejected because may be a particular society culture is against Islamic principles.
Divine Command theory	"Ethically right" means "commanded by God", and "ethically wrong or unethically" means "forbidden by God". Religion is the only standard to identify ethics.	Accepted, but this theory was rejected in the Western literature.
Utilitarian theory	"Ethically right" means the action results in a greater number of utilities than could be achieved by any other actions.	Rejected because the only basis for this theory is the greatest consequences for greatest number.
Egoism theory	A person must always perform in his/her own interest. An action is considered to be ethically right only when it promotes a person's self-interests.	Rejected because it is against the Islamic principles of justice, helping others, and altruism.
Deontology theory	It underlines the duty as a basis of moral category which can be seen as a right or wrong judgment. It does not look at the consequences of action. And, there are universal ethical actions that everyone must accept.	Rejected because the theory is not clear about the source of these "universal ethics" since in Islam the only source for ethical system is the Islamic principles.
Virtue ethics theory	This theory focuses on what makes a good individual or person rather than what makes a good action. There are specific virtue traits that every person must have such as civility, cooperativeness, courage, fairness, friendliness, generosity, honesty, justice, loyalty, self-confidence, self-control, modesty, fairness, and tolerance.	Rejected because the only basis for this theory is virtue ethics.

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Consequentialism

- Moral theory according to which actions are judged to be right or wrong by virtue of their consequences
- Acts are valued according to their consequences
- It considers that what makes an action moral or not are its consequences
- Identification of the RIGHT with the GOOD produced

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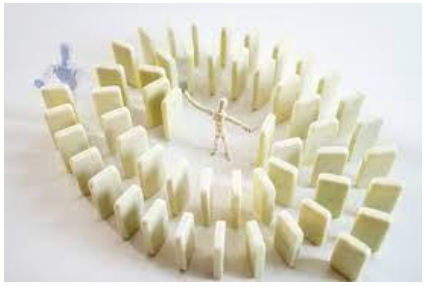
Consequentialism

- Three types:
  - Egoism
    - Human beings always act and must act for their own benefit
  - Altruism (or ethic of compassion)
    - Should think about the other
  - Utilitarism
    - Act according to what benefit of the most

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Examples of consequentialism

- “End justify the means”
- Cost/benefit analysis
- “The greatest good”
- “What will I gain from that?”



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Utilitarism



consequentialism.

- Utilitarianism holds that the most ethical choice is the one that will produce the greatest good for the greatest number.
- It is the only moral that can be used to justify military force amework or war.
- It is also the most common approach to moral reasoning used in business because of the way in which it accounts for costs and benefits.

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Utilitarism

- However, because we cannot predict the future, it's difficult to know with certainty whether the consequences of our actions will be good or bad. This is one of the limitations of utilitarianism
- Utilitarianism also has trouble accounting for values such as justice and individual rights. For example, assume a hospital has four people whose lives depend upon receiving organ transplants: a heart, lungs, a kidney, and a liver. If a healthy person wanders into the hospital, his organs could be harvested to save four lives at the expense of one life. This would arguably produce the greatest good for the greatest number. But few would consider it an acceptable course of action, let alone the most ethical one.
- So, although utilitarianism is arguably the most reason-based approach to determining right and wrong, it has obvious limitations.



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Utilitarism



- Of Act
  - Checks the consequences of each individual act
  - Utility calculation each time the act is performed
- Of Rule
  - Checks the consequences of everyone following a certain rule
  - Calculates the overall utility of accepting or rejecting the rule

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Deontological ethics



- Deontology consists of the belief that certain actions are wrong in themselves, regardless of the consequences they cause
- Deontological ethics **holds that at least some acts are morally obligatory regardless of their consequences for human welfare**.
- Descriptive of such ethics are such expressions as “Duty for duty's sake,”“Virtue is its own reward,” and “Let justice be done though the heavens fall.
- Deontology is an ethical theory that **uses rules to distinguish right from wrong**.
  - Deontology is often associated with philosopher Immanuel Kant.
  - Kant believed that ethical actions follow universal moral laws, such as “Don't lie. Don't steal. Don't cheat.”
- Right is independent of the result produced
- Duty-based decision

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Deontological ethics

- Kant's formulation of ethics is somewhat obscure.
  - He claimed that there is a moral command, the “categorical imperative”, that we must all follow.
  - He never explained it in detail, but he stated that a formula for defining whether an action is in accordance with him or not is as follows: let us imagine that all humanity acts in accordance with the intention that we would have in doing such an action.
  - If the intention itself prevents all humanity from acting in accordance with it, acting with that intention is not allowed.

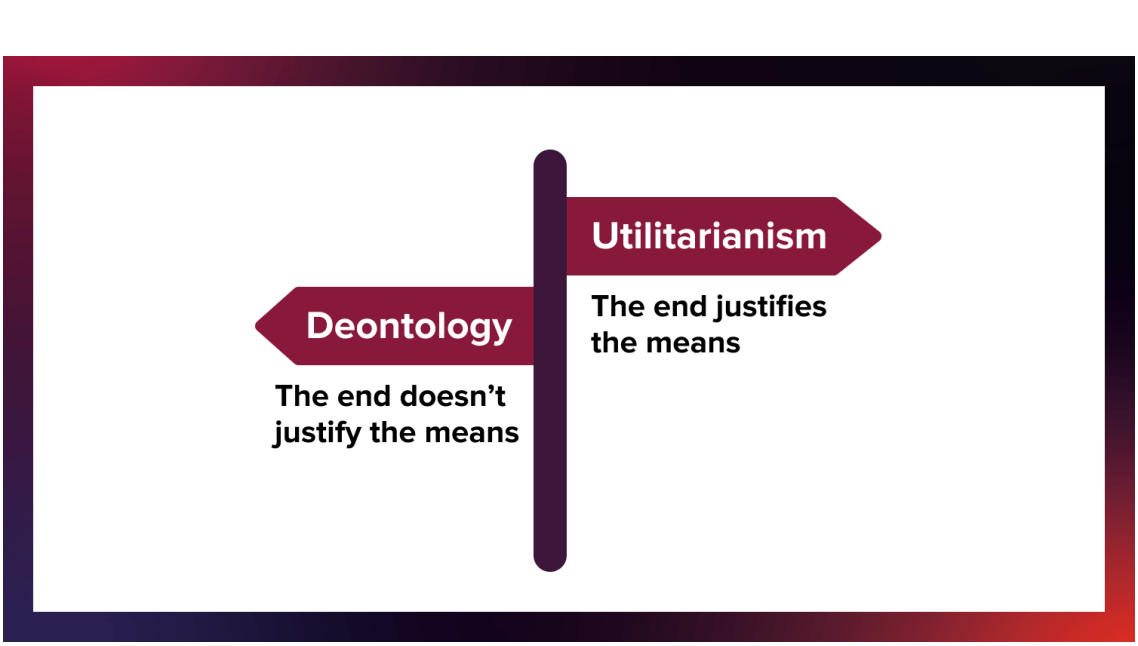
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Examples

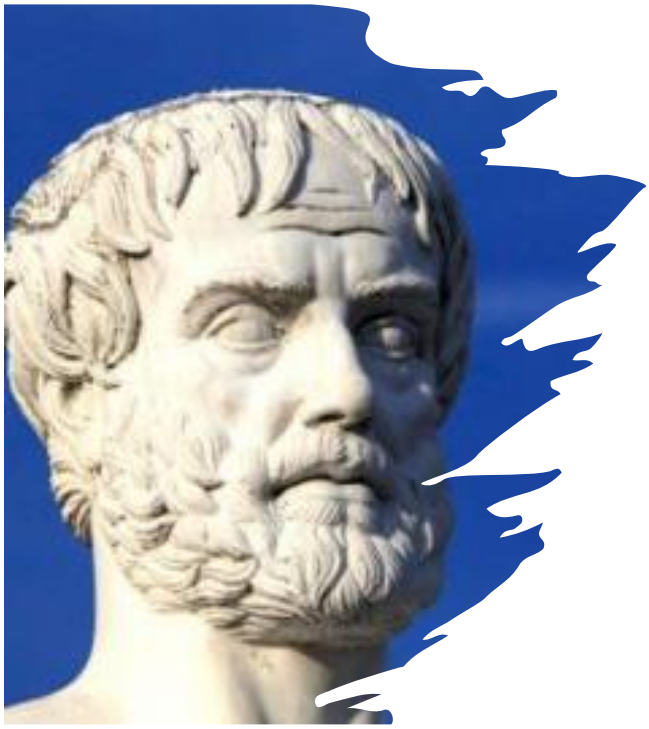
- "The ends do not justify the means"
- "Do to others as you like them to do to you"
- "Be fair and do not use others for selfish reasons"



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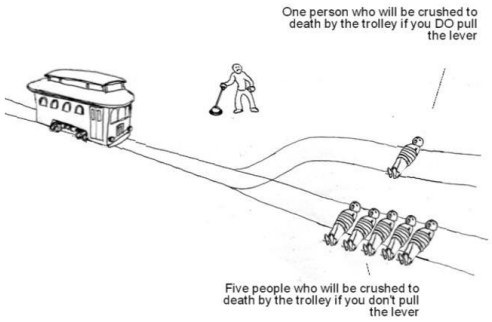


Virtue Ethics

- It was developed by Aristotle and is focused on what a moral person should be like.
- He stated that a person, to be excellent, should have several virtues, such as courage, temperance, modesty and self-control.
- All these virtues would be an ideal compromise between an excess and a lack; in the case of courage, it would be the middle ground between cowardice and temerity.
- This ethical theory has somewhat lost its relevance over the modern period

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Virtue Ethics



- Virtue ethics does not usually lead to consequences that we consider unacceptable, but it does have the problem of not making it very clear what we should do.
- An example is the classic case of the runaway train that goes on a track where there are five people tied up, and one person is on the side of the lever that would divert the train to a track where there is only one person tied up.
  - Utilitarianism would say that we must kill one person to save five
  - Kantianism would say that we cannot kill a person, regardless of the consequences.
  - Virtue ethics does not seem to be able to give an objective answer about what attitude would be right in this case.

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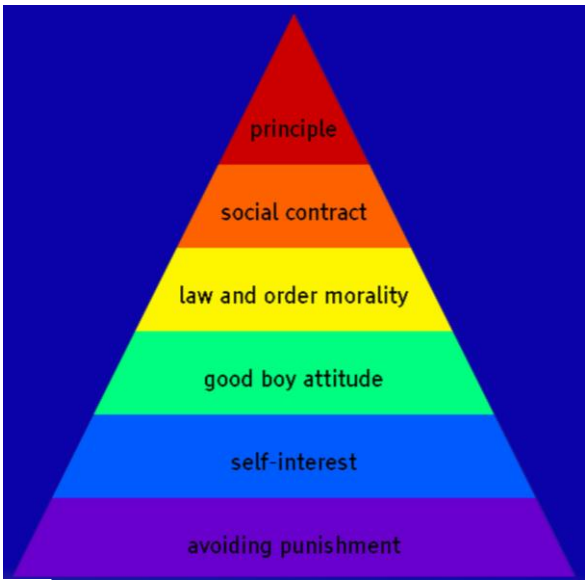




Four Ethically Objectivist theories

Theory	Description	Example
Ethical egoism	Do what is in your self-interest	Under capitalism, Each company should maximize profits
Utilitarianism	Do that which produces the greatest amount of happiness for the greatest number of people	Take a vote in your family about which ice cream flavors to buy
Kantian ethics	Absolute moral rules must be followed, regardless of the consequences	Always tell the truth, even if it could harm you
Virtue ethics	Do that which makes you a better person	What sort of a person shall I be? A trustworthy person?

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Stages of moral development by Kohlberg

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Stages of moral development by Kohlberg

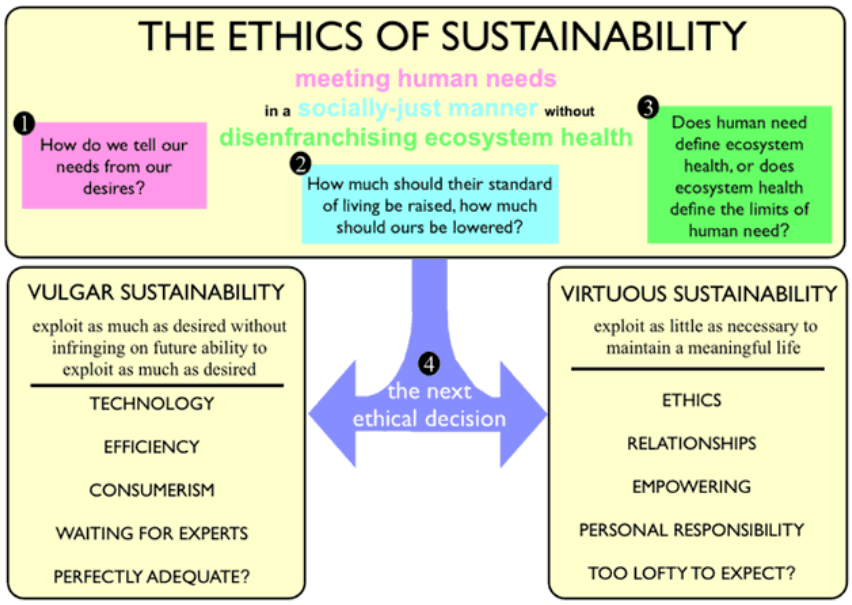
Stages of moral development (70's):

Level Preconventional (<6 years)
1 – Punishment and obedience orientation. Obey rules to avoid punishment. (**Social perspective: Blind egoism**)
2 – Naïve hedonism. Conforms to get rewards and to have favors returned. (**Social perspective: Instrumental egoism**)

Level Conventional (7-11 years)
3 – Good boy/girl morality (recognize good and bad intentions). Conforms to avoid disapproval or dislike by others. (**Social perspective: Social relationships perspective)**
4 – Conforms to avoid censure by authorities. Able to see abstract normative systems. Loyalty to law and order (**Social perspective: Social systems perspective**)

Level Postconventional (>11 years)
5 – Conforms to maintain communities. Emphasis on individual rights. Recognizes that contracts will allow persons to increase welfare of both. (Social perspective: Contractual perspective)
6 – Individual principles of conscience. (Social perspective: **Mutual respect as a universal principle**)

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True sustainability needs an ethical revolution (theecologist.org)

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The Ethical Dillema

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Ethical dillemas or pitfalls

- Ethical dissonance
  - Separation of a particular case from the person's moral convictions
- Ethical Neutralization
  - Disclaimer: "I was forced…"; "I'm not the one in charge..."
  - Disclaimer: Damage refusal: "it's only once", "mine doesn't hurt…"
  - Depreciation of the victim: "I was really asking for them", "he is greedy", "whoever walks in the rain gets wet…"
  - Condemnation of the condemners: "whoever says that is racist/fascist…"; "I don't want to hear the truths"
  - Appeal to loyalties: "it's better for everyone", "it was on behalf of the partners…"
  - Weird references: "He steals, but he does it!"

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The moral elastic!!

- Trade-off between: “I want to feel good about myself” vs “I want to benefit from some dishonesty”
- That's why people "stretch the moral rubber band!"
- Thus, dishonesty depends on rationalization and expected gain



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What makes the elastic stretch?

- Psychological distance between act and consequence
- Involvement of own resources
- Ability to rationalize and control desires
- Revenge, spite
- Moral codes of conduct
- Involvement and formalization (signed something? Were there witnesses?)
- Comparison with others (e.g. public figures, with peers…)

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Ethical dilemma: A case of illegal dumping and whistleblowing



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Adapted from Journal of Business Cases and Applications (volume 20)

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Ethical dilemma



Question 1.

The Stakeholder model helps provide a framework to identify the implications of John's decision. Various **groups affected by the ethical decision** include employees, customers, shareholders and the general public. While John may feel compelled to protect his job and his employer by keeping quiet in the short-term, the long-term impact of that decision may have more harmful effects on the environment, and thus shareholders, employees and customers.

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Ethical dilemma



Question 2.

There are several pros and cons to each approach. An advantage of **going directly to his supervisor** includes confronting the problem head-on and stopping further damage, but a potential con would be losing his job.

An **anonymous letter** would protect his identity and possibly save his job, but a con would be if it is not take seriously or covered up again.

Ignoring the problem protects his job in the short term, but allows the problem to persist, which is likely to damage the company's brand and reputation in the long term.

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Ethical dilemma



Question 3.

At the **pre-conventional stage**, John would likely prevent himself from getting in trouble resulting in the wrong long-term decision.

At the **conventional stage**, John might feel compelled to do something, but also to protect his identity so that he is not judged harshly by the company.

At the **postconventional stage**, John would be compelled to do the right thing because he believes it to be the moral choice, which might result in him approaching his supervisor directly, despite the potential harm to his position at the company.

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Ethical dilemma



Question 4.

There are many risks to “blowing the whistle” on an employer, such as potentially losing one’s employment, facing diminished career prospects and social risk of being labelled a snitch.

However, the risk of not reporting unethical and/or illegal actions, can be much more damaging in the long-term to the various stakeholders.

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