

Business Ethics - A Philosophical and Behavioral Approach

Christian A. Conrad

Business Ethics - A Philosophical and Behavioral Approach

 Springer

Christian A. Conrad
University of Applied Science
Hochschule für Technik und Wirtschaft des Saarlandes
Saarbrücken, Germany

Translated by Danica Webb
Hotchkiss, CO, USA

ISBN 978-3-319-91574-6 ISBN 978-3-319-91575-3 (eBook)
<https://doi.org/10.1007/978-3-319-91575-3>

Library of Congress Control Number: 2018942873

© Springer International Publishing AG, part of Springer Nature 2018

This work is subject to copyright. All rights are reserved by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

Printed on acid-free paper

This Springer imprint is published by the registered company Springer International Publishing AG part of Springer Nature.

The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Foreword

This book is the result of more than 12 years of professional experience in a large German bank, where I often worked with the management of international companies as a business consultant. The time period of this experience included the boom and crash at the beginning of the new millennium and the financial crisis. These practical impressions led to the conviction that there is a problem with ethics in the economy and that the lack of ethics is not only harmful to people but also leads to serious productivity losses. As a result, I have held seminars on business ethics in the bachelor's and master's degree at the University of Applied Science HTW in Saarbrücken. This teaching experience was incorporated into this book as well as an extensive literature study.

I would like to thank Ms. Danica Webb (USA) for the translation of the major part of this book.

Saarbrücken, Germany
April 2018

Christian A. Conrad

Introduction

The question of whether or not there is a need for ethics in business is still a scientific discussion. However, in the context of the 2000 Enron crisis, the first doubts arose as to whether a business enterprise without morality could work. Since the financial crisis that began in 2007, the economy and business administrations are increasingly confronted with the demand for more social responsibility. A common feature of the crises was the immoral enrichment efforts of managers at the expense of their companies and the system, and thus society. The market economy system places the individual at the forefront of economic value creation and grants him a great freedom of development. The pursuit of self-interest is intended to ensure the greatest possible motivation for the individual, and thus a maximum result for the general public seems to work less and less.

The central question to be answered in this textbook is the extent to which moral values play a role as productive forces for the economy. Our underlying method is a scientific approach. In this case, no normative approach is deliberately pursued and a morality is not demanded a priori by the economy. This morality would have to be subjectively and culturally relativized and could therefore claim no universality. Moral values in themselves, such as the dignity of man, should not be regarded as a requirement profile without logical reasoning, although they have a high target priority. Normative, moral, perhaps even emotional-related goals such as justice should be mentioned, but should not be used for argumentation when they are not productivity-enhancing. The aim is the optimal development of the productive forces in companies and national economy, i.e., the simple increase in welfare through output maximization while taking into account the welfare of all parties involved. A system of ethics founded purely on logic will be devised, one which stimulates the productive forces of the market economy. The aim is to reveal the ethics implied by the market economy, an ethics that can also claim international validity for the globalized economy. We hope to justify and promote ethics objectively and thus convincingly.

The term “business ethics” encompasses, according to the international standard, the ethics of companies in the business sector (meso level, corporate ethics, organizational ethics), managerial ethics in companies (micro level, personal ethics), and

even ethics within the national economic framework (systemic level, economic ethics). The goal is to create a textbook for business ethics from the many ethical approaches and partly also from different conceptual uses. The aim is to show how ethics improves productivity in the economy. For practical application, specific ethics tools are provided.

In order to work out how people behave ethically and unethically and how this affects the economy, this book refers to newer research results from behavioral economics, but also from other disciplines such as psychology and sociology, thus leading to new conclusions for business ethics. The knowledge relevant to the students is first derived scientifically, and then the results are presented as summarized. After the ethical assessment approaches have been explained, the students are given an ethical assessment of economic behavior using case studies. Role-playing and games are also used to explain the behavior of people in relation to ethics.

The book begins with the foundations of business ethics by defining terms and delineating objectives. The importance of ethics for business, the economy, and the society is also discussed here. Then the ethical evaluation approaches are presented, which are intended to enable the reader to evaluate economic behavior ethically. Man in business is the next chapter. Here we will deal with man and his behavior. What motivates him? To what extent is it ethically oriented? Is there a sense of justice? Next, we will discuss the rules of the market. Does the market economy promote ethical behavior or is there a conflict of goals between ethics and market economy? Do companies have a social responsibility? We note that the answers to these questions are very much dependent on the legal framework of economic activity. In an economic anarchy, ethical behavior cannot be expected either by the companies or by the individual actors, which is why we turn to ethics as an ordinance. Here, the state as an actor has an important role to play. After analyzing the importance of ethics for productivity in the enterprise and in the economy, we present so-called ethics tools as the instruments with which the management can promote ethical behavior in their employees. The book concludes with an outlook and recommendations on business ethics as a discipline as part of economic education.

Contents

1	Basic of Ethics	1
1.1	Basic Terms	1
1.2	What Is Business Ethics?	5
1.3	Objective of Business Ethics	6
	Literature.	9
2	Ethical Valuation Approaches	11
2.1	Classical Ethics	11
2.1.1	Ethics of Conviction	12
2.1.2	Kant’s Rules for Ethical Reasoning	13
2.1.3	Ethics of Duties (Deontological Ethics)	15
2.1.4	Ethics of Responsibility or Ultimate End (Teleological Ethics).	20
2.1.5	The Utilitarianism of Jeremy Bentham	22
2.1.6	Millian Utilitarianism	24
2.1.7	Individual Ethics or Discourse Ethics?	25
2.2	Modern Ethics	32
2.2.1	Moral Economics: Morality Must Be Worthwhile	32
2.2.2	Specific Ethical Assessment Principles	36
2.2.3	Justice as an Assessment and Behavioral Approach	38
2.3	Conclusion on Ethical Evaluation Procedures.	40
2.4	Application Examples	41
2.5	Summary	42
	Literature.	43
3	The Image of Humans	47
3.1	The Classical View of Man: Homo Economicus	47
3.2	Falsely Understood Egoism.	51
3.3	Individualism Versus Collectivism.	52
3.3.1	Rolegame Individualism Versus Collectivism	52
3.4	Fairness As Motivation	56
3.5	Human Intelligence	58

3.6	The Cultural Impact.	62
3.7	Conclusion and Summary	63
	Literature.	66
4	Ethical Problems of the Economy: Enron, Subprime & Co. – From Crisis to Crisis.	69
4.1	Enron, Worldcom and Co.	69
4.1.1	The Consequences of Enron, Worldcom & Co.	72
4.2	The Subprime Crisis, the Biggest Financial Crisis After 1929	73
4.3	Some Causes of the Financial Crisis	81
4.3.1	Technical Mistakes.	81
4.3.2	Exaggerated Belief in Figures	86
4.3.3	Missing Moral Values	90
4.4	Summary	95
	Literature.	95
5	Market and Morality	99
5.1	Economy and Freedom – A Historical Overview	99
5.2	A Free-Market Without Social Rules?	105
5.3	The Russian Transformation to an Unethical Market Economy	106
5.4	How Does the Market Economy System Work?	111
5.4.1	The Picture of the Perfect Market in the Welfare Economy	112
5.4.2	Functions of Competition	114
5.4.3	Moral Goals and Market Economy	118
5.4.4	Social Market Economy.	124
5.5	Market Failure	129
5.5.1	Market Failure Due to Non-exclusion	129
5.5.2	Market Failures Due to Asymmetrical Information.	130
5.5.3	Market Failure Due to Transaction Costs	133
5.5.4	Market Failure Due to External Effects	139
5.5.5	Market Failure Due to Corruption	140
5.6	Morality Within the Economic Division of Labor.	146
5.7	The Company in the Market System	154
5.7.1	The Company’s Objective of Maximizing Profits	154
5.7.2	Weaknesses in Controlling.	157
5.7.3	Corporate Social Responsibility	158
	Literature.	165
6	Institutional Ethics: The State Regulatory Framework	171
6.1	The Ethical Prisoner Dilemma.	171
6.2	Ethical Institutions and Organizations	173
6.3	Is the State of Law Sufficient?	175
6.4	International Business Ethics.	178
6.4.1	Non-Governmental Organizations or Civil Society Groups.	179

6.4.2	International Quality Seals.....	179
6.4.3	Incentives to Overcome the International Prisoner's Dilemma.....	180
6.4.4	International Ethical Codes.....	181
	Literature.....	184
7	Tools of Ethics for Management	185
7.1	Institutional Ethics on Company Level.....	185
7.1.1	Corporate Principles and Vision.....	185
7.1.2	Operative and Strategic Targets.....	189
7.1.3	Code of Conduct.....	191
7.1.4	Ethical Control Systems.....	193
7.1.5	The Ethical Aspects of the Shareholder Value Concept.....	196
7.1.6	Ethical Stakeholder Approach.....	201
7.2	Organizational Ethics.....	209
7.2.1	Organizational Structure.....	210
7.2.2	Ombudspersons.....	216
7.2.3	Ethics Officers.....	217
7.2.4	Ethics Commission.....	217
7.2.5	Whistleblowing.....	218
7.3	Leadership Ethics.....	222
7.3.1	Case Study of Enron.....	223
7.3.2	Weaknesses of Corporate Governance.....	223
7.3.3	Incentives, Risk and Compensation Schemes.....	228
7.3.4	Ethical Corporate Culture.....	246
7.3.5	Ethical Leadership.....	267
7.3.6	The Ethical Model of Company Management.....	281
7.4	Summary.....	297
7.4.1	Ethical Staff Selection.....	297
7.4.2	Ethical Personnel Development.....	309
	Literature.....	318
8	Ethics in Business Education	327
8.1	Cultural Factors in Economics.....	327
8.2	Economics as a Natural Science?.....	330
8.3	Ethics in Business Administration.....	333
	Literature.....	337
	Index	339

About the Author

Prof. Dr. Christian A. Conrad teaches economics and business ethics at Saarland University of Applied Science HTW. He published several books and papers about ethics, business, economics and financial markets. He was previously Senior Key Account Manager in the national and international corporate department of a major German bank.