Understanding ethical theory

Enhancing decision-making and building trust in professional practice

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Business ethics is the study of how ethical principles and moral values apply to the behaviour and decision-making of businesses and organisations and the people who work in them. An understanding of business ethics can help companies and employees make ethical decisions and behave in a responsible and accountable manner, both to their stakeholders and to society as a whole. Financial advisers are required to maintain a high standard of ethics in their professional practice. The study of ethical theory can help financial advisers to frame issues in a way that improves decision-making, to build trust with clients, and to comply with regulatory requirements. The following discussion of ethical theories from the *Concise Encyclopedia of Business Ethics* provides a framework to identify potential ethical dilemmas that may arise, leading to greater success and sustainability in professional practice.

Business ethics

Business ethics can be defined as the critical, structured examination of how people and institutions should behave in the world of commerce. It is a *critical* discipline in that it is interested in determining what ethical standards are best and most well-justified, rather than in cataloguing the views that people actually happen to have. It is a *structured* pursuit in that it involves providing reasoned arguments,

rather than simply stating opinions or feelings, about particular issues. In particular, it involves examining appropriate constraints on the pursuit of self-interest, or for companies of profit, when the actions of individuals or companies affect others.

In practical settings, business ethics may be thought of, rather than as a topic of intellectual inquiry, as a name for proper behaviour in the world of commerce. In this sense, we might say informally, for example, that a company has 'good business ethics,' or that 'business ethics requires that a company do such-and-such'.

In many contexts, terms such as Corporate Social Responsibility (CSR), corporate citizenship, or even sustainability, may be used equivalently to 'business ethics'. Whether these are reasonably synonymous is a matter of controversy.

Overview of ethical theory

Ethical theories are attempts to provide a clear, unified account of what our ethical obligations are. They are attempts, in other words, to tell a single 'story' about what we are obligated to do, without referring directly to specific examples. It is common in discussions of business ethics to appeal to one or more ethical theories in an attempt to clarify what it is right or wrong to do in particular situations. Some of the philosophical ethical theories commonly appealed to include:
- **Utilitarianism**, which says that the right thing to do in any situation is whatever will 'do the most good'—that is, produce the best

outcomes—taking into consideration the interests of all concerned parties.

- **Kantianism**, or deontology more generally, which says that—as a matter of respect—there are certain absolute, or nearly absolute, rules that must be followed, for example, the rule that we must respect people's privacy, or respect other people's right to make decisions about their own lives.
- **Social contract theory**, or 'contractarianism, which says that, in order to figure out what ethical rules to follow, we ought to imagine what rules rational beings would agree to in an 'ideal' decision-making context.
- **Virtue theory**, which says that we ought to focus not on what rules to follow, but on what kinds of people or organisations, we want to be, and what kinds of ethical examples we ought to follow.
- **Feminist ethics**, which is a complex set of interrelated perspectives that emphasise interpersonal concerns such as caring, interdependence, and the ethical requirements of particular relationships. Such concerns are traditionally identified with women, but feminist ethics should not be thought of as a theory only *for* women.

In some cases, scholars attempt to use a single ethical theory to shed light on a topic or range of topics—a good example would be Norman Bowie's book, *Business Ethics: A Kantian Perspective*. A more typical approach— one taken by many business ethics textbooks today—is to attempt to use insights from various ethical theories to shed light on different aspects of a particular problem. Such an approach might involve, for example, asking which decision in a particular situation would result in the best consequences—a utilitarian consideration—but then asking whether acting that way would violate any Kantian rules or whether a person acting that way would be exhibiting the kinds of virtues that a good person would exhibit.

The role of ethical theory in business ethics is somewhat controversial, in part because business ethics is seen as a branch of 'applied ethics'. Some regard applied ethics—and hence business ethics, along with bioethics, environmental ethics, etc.—as a field that takes 'standard' ethical theories and *applies* them to practical problems. Such an approach might involve asking, for example, 'What would Kant say about privacy in the workplace?' Others regard applied ethics as an attempt to gain *theoretical insight*—or to 'build' better ethical theories—by testing them against real-life problems.

Utilitarianism

Utilitarianism is an ethical theory that says that the right thing to do in any situation is whatever will 'do the most good'—that is, whatever will produce the best outcomes—taking into consideration the interests of all concerned parties.

Utilitarianism is part of a larger family of consequentialist ethical theories—theories according to which the

rightness or wrongness of actions is determined by their tendency to produce good or bad consequences or outcomes. Utilitarianism says in particular that the right action in any situation is the one that will produce the best outcomes, as measured by impact on *everyone* involved. The latter part is important—utilitarians believe that everyone's interests count.

Historically, utilitarian philosophers played an important role in many struggles that are today recognised as ethically significant. Utilitarians argued, for instance, in favour of rights for women and for people of various races. All people—all happiness and all misery—count equally, in the eyes of utilitarians. This was a radical view, in an era in which only white, property-owning males were really thought of as being entitled to a full range of rights.

In business contexts, utilitarianism implies an obligation for businesses to do what they can to act in a way that maximises happiness and minimises suffering. So, utilitarianism provides a basis for criticising business behaviours that cause harm to anyone at all.

A hard-core utilitarian would say that outcomes are *all* that matter. If option A will create more happiness— or less misery—overall than option B, then option A is ethically correct. Others who think that utilitarian reasons matter, but are incomplete, would say that there is a *good reason* in favour of option A, but that other considerations—such as human rights— matter too and might sway our overall ethical judgement on the matter.

The utilitarian perspective is perhaps best understood when examined in contrast to rights-based perspectives. Consider the question of child labour. A rights-based perspective might say that it is wrong to hire children to do difficult labour, such as working in a factory or in a cotton field. A utilitarian perspective would focus on outcomes—if more good (more happiness) is created overall by giving a child a job, then it is right to do so, even if we agree that in principle it would be better if the child did not *need* the job.

Kantianism

Kantianism is a key version of the broader ethical perspective known as deontology. According to deontology, there are certain absolute, or nearly absolute, ethical rules that must be followed, for example, the rule that we must respect people's privacy, and the rule that says we must respect other people's right to make decisions about their own lives. This implies that certain actions, perhaps including lying and killing people, are absolutely prohibited.

In the modern day, deontology manifests itself in a focus on human rights—roughly, the idea that there are certain things that must never be done to human beings, as such. Such rights are typically thought of as being *universal*, applying to all persons everywhere, regardless of the political or legal system under which they live.

The details of Kantianism, the particular version of

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deontology put forward by German philosopher Immanuel Kant (1724-1804), are complicated. But the core idea is that human beings are not mere objects—they are persons who are worthy of respect, and who must be treated as such. In particular, other persons must not be treated as mere tools in the pursuit of one's own goals. Kantianism is the most commonly-cited version of deontology, and many people use the term 'Kantianism' to refer to deontology generally.

In business contexts, Kantianism implies an obligation for businesses, and businesspeople, to treat all persons with respect. In particular, respectful treatment is considered obligatory *regardless of what one's goals and mission are*. A desire to achieve a particular outcome, such as to make a profit, cannot override the obligation to treat people fairly and with respect. Kantianism even insists that the desire to achieve outcomes that you think are *ethically good* cannot justify actions that, incidentally, fail to treat people with respect. For instance, a Kantian would likely say that it is wrong to lie to a customer to get them to buy a product, even if you sincerely believe that the product is one that will bring them great joy.

The Kantian perspective is perhaps best understood when examined in contrast to utilitarianism, which says roughly that all that matters ethically is the good and bad consequences produced by a particular action. A hard-core Kantian would perhaps say that consequences almost *never* matter, and should never be counted in deciding what to do. Others think that Kantian rules, grounded in respect for persons, are important, but are incomplete. Such a view might suggest that while the pursuit of good outcomes is generally ethically good, this needs to be *balanced* against the need to respect persons, and that certain behaviours—such as lying to people or manipulating them—are seldom going to be justifiable simply in pursuit of what the individual sees as a good outcome.

Virtue theory

Virtue theory is an ethical framework that says that we ought to focus not on what rules to follow, but on what kinds of people or organisations we should be, and what kinds of ethical exemplars we ought to imitate. In asking about the ethics of a particular behaviour, a virtue theorist or 'virtue ethicist' would ask whether someone engaging in that behaviour is manifesting the appropriate virtues or character traits. Is that, for example, the kind of thing a brave or generous or compassionate person would do?

Given the focus of virtue theory on character, it becomes important to figure out what kinds of people we ought to be. There are at least two routes to figuring out what kinds of people we ought to be. One is to ask what characteristics a person needs to have in order to flourish—that is, to thrive and live a good life as part of a healthy community. The other is to think of examples—when you picture a *good person*, what kind of person do

you picture? This might involve thinking about a real person in your own life whom you admire—a favourite teacher or mentor perhaps—or thinking about what an imaginary ideal person would be like. Virtue theory suggests that once you can imagine what a good person is like, you should behave in any situation as you think such a person would behave.

The term 'virtue' is not exclusively a technical term, but it is also not used much in everyday language. Virtues are basically positive character traits, such as honesty and generosity. The opposite of a virtue is a *vice*. Vices are negative character traits like dishonesty and greed. Virtue theory has its historical roots in the work of the ancient Greek philosopher, Aristotle, who argued that each virtue is a mean or 'middle-point' between two vices, one of defect and one of excess. So courage, for example, can be understood as a middle-point between cowardice (the defect or lack), on one hand, and rashness (the excess) on the other.

Virtue theorists tend also to be interested in the process by which individuals acquire various virtues. It is often pointed out that virtues, and vices, are habits, and that habits are acquired by repetition—each time you tell the truth in a difficult situation, it makes it slightly easier to do so the next time. Over time, through repetition, we acquire the habit of truth-telling. This gives special significance to individual actions. The problem with telling a lie is not—as a utilitarian would say—the damage that it does, nor—as a Kantian would say—the fact that lying amounts to disrespecting someone, but rather that in telling a lie we are likely acting in a way that we do not think is worthy of imitation, and we are contributing to the process of building ourselves into liars.

Virtue theory is especially relevant to business in that modern businesses put significant emphasis on mentorship and on leadership. It is relatively easy for senior business leaders to see the significance of setting a good example for their followers.

Conclusion

Business ethics is the critical and structured examination of how people and institutions should behave in the world of commerce. It is a discipline that helps companies make ethical decisions, behave responsibly, and comply with regulatory requirements.

Gaining an understanding of various ethical theories can help financial advisers by shedding light on different aspects of a particular problem in order to make better decisions and maintain trust with their clients. **FS**