2. LITERATURE REVIEW

2.1. Evolution of Ethics

Defining ethics has long proved to be problematic for both practitioners and researchers. (Brenner and Molander, 1977). It has been variously defined with Webster's *New World Dictionary* (1987) calling it "the study of standards of conduct and moral judgement." Writers in the field have proposed a number of other definitions of business ethics. For example, Ferrell and Fraederich (1991) note that "business ethics comprise moral principles and standards that guide behavior in the world of business". Others have similarly defined it as a set of moral principles or values governing an individual or group (Trevino and Nelson, 1995), a systematic inquiry into the beliefs we have and the judgements we make about what is morally right and wrong (Taylor, 1975) and as a systematic attempt to make a cohesive, rational whole out of our individual and social moral experiences (DeGeorge, 1995).

Another definition is that ethics is the study and philosophy of human conduct with the emphasis on the determination of right and wrong. The term ethics commonly refers to "just" or "right" standards of behavior among individuals in a situation. Browning and Zabriskie (1983) went on to add that these standards are defined using "recognised" social principles involving justice and fairness.

Hall (1992) probably touched the core of the subject matter when he defined ethics as generally "knowing what ought to be done and having the will to do it ". Trevino and Nelson (1995) cited that good ethics represent the very essence of a civilised society and is the bedrock upon which all of our relationships are built. However, they cautioned that ethics is not just about the connections we have to others, since we are all connected in one way or another - rather it is about the quality of that connection that really matters.

The question of ethics as a part of human behavior arose more than two thousand years ago. Socrates provided the first recorded example when he espoused the idea of one's own good as the ultimate justification for ethical behavior. For the record, he lived a life worthy of his beliefs and finally when he came face to face with death, it was because he believed that he had only two options : the death of his body or the corruption of his character, a kind of symbolic death of his inner core beliefs and he thought the latter was worse.

Present-day ethical schools of thought had its beginning in the late 18th century, with Jeremy Bentham expounding the theory of utilitarianism with its emphasis on the results-oriented or consequential approach, whilst the other spectrum was the deontological or act-oriented approached, as championed by Immanuel Kant.

The classical view as represented by Socrates, Plato and even Aristotle settled moral questions by the usage of rational methods or reasoning. According to them, reason should guide one's morality and not the opinion of the majority. In fact, Socrates propounded ethical standards which is based on good citizenship. This means that one is ethical if he is loyal to the state or government. Aristotle, on the other hand, considers happiness (*eudaimonia*) as the ultimate objective of being ethical. To him, a person will feel happy after doing good. In his *Ethica Nicomachea* Aristotle defines happiness as not just being confined to the activity of the soul in accordance with virtue but also includes external goods such as good appearance, sufficient wealth for a comfortable living, good family life and the like. Although there were objections to the classical theory based on their stand of cultural relativisim and ethical relativisim, they have been refuted convincingly and to this day, Socrates' view still holds insofar as the Western world understands the concept of ethics, which has a strong affinity towards positivism.

However, the realm of business ethics is, more often than not, associated with religion or moralistic teachings. This is in itself not surprising since people usually relate the notion of right and wrong with religion, with its exhortations to live a righteous life. Also, this is generally in line with the principle of non-maleficience. Simply put, this principle holds that a chief obligation of professionals is to *do no harm.* In fact, this principle had its root two thousand five hundred years ago in the Hippocratic oath of the Greek physician *Primum non nocere,* which means " Above all, not knowingly to do harm "

Notwithstanding this, White (1988) suggested that religious ethics and philosophical ethics are two different enterprises since one is spiritual while the other intellectual. Moreover, religions make moral pronouncements in the language of authority which to a great extent effectively puts it outside the realm of public discussion and philosophical ethics.

But, it must be remembered that the Golden Rule in ethics, " Treating others as you would like to be treated " had its foundation in all major religions including Christianity, Islam, Buddhism, Hinduism, Judaism and even Confucianism. Hall (1992) remarks that there were inherent weaknesses in this line of reasoning because it allows some to view ethics in manipulative terms such as " Do unto others so that they will do unto you ".

From the Islamic point of view, the concept of ethics is not utilitarian and relative; rather, its principles are eternal and absolute. (Hassan, 1995). In fact, Islam considers ethics as an offshoot of *imam,* a Muslim belief system in which human life begins earlier than its arrival in this world and extends beyond its departure from this world. In this respect, ethical notions in Islam assume a broader and more holistic approach. In essence, Islam postulates that business ethics should not be viewed as good behavior imposed on businessmen and punishable if violated but rather practised as a means of achieving individual success.(Alhabshi,1996).

2.2. Business Ethics and Psychology

Psychologists have contributed to ethical thought by suggesting a connection between moral virtue and a healthy human personality. Maslow's (1954) hierarchy of needs contains a series of five ascending needs : physiological, safety, belongingness and love, esteem, self-actualization. The last need, self-actualization, relates to morality and human character. According to Maslow, self-actualizers are the most healthy and most fully developed people you can find. In fact, Maslow's theory suggest that ethically appropriate behavior benefits and unethical behavior harms the doer. There is also the added implication that when self-actualized humans make ethical judgements, they apply a standard of human good that is universal in nature and not relative to either an individual, groups or culture.

Kohlberg's (1969) moral reasoning theory provides the best explanation for ethical behavior based on individual characteristics. His theory is a cognitive development theory that focuses primarily on how people actually decide what course of action is morally right. According to Kohlberg, moral reasoning develops sequentially through three broad levels, namely Preconventional, Conventional and Postconventional, with each level comprising two stages. Kohlberg does not see the actual decision as having the same level of importance as the reasoning process used to arrive at it. In fact, he argues that the higher the reasoning stage, the more ethical the decision since the higher stages are more consistent with normative ethical principles of justice and rights.

However, some critics have charged that this model only focuses on a partial perspective on ethical development with its emphasis on reasoning while playing down other qualities needed in ethical conduct.(Duska and Whelan, 1977; Snell, 1993).

9

Three main criticisms were leveled at Kohlberg's model, namely, incompleteness, hierarchical form and specific content (Snell, 1993). The charge of incompleteness is based on the premise that when a person faces an ethical dilemma, he does not simply use reason to obtain a solution. Instead, there is the greater likelihood that he is acting out a choice. Maclagan and Snell (1992) strongly argued that the quality of that action ethically depends very much on the person's commitment to ideals, their readiness to accept personal responsibility for enacting these ideals and having the capacity to implement them.

In the area of hierarchical form, the issue revolves around how one can be sure that one principle is better than the others. Mackie (1977) responded that we can never be sure even from first-hand experience. However, we can learn to accept key principles by considering what society would be like if this absence was in fact acknowledged.

Disputes regarding the specific content of Kohlberg's model are centred on the assumptions regarding Post-conventional reasoning. Amongst the critics are Fisher, Merron and Tobert (1987) with their claim that the highest stages of ethical reasoning entail a capacity for sophisticated relativisim, which is defined as a love of principled reasoning, endless dialogues and a playful sense of irony, as compared to Kohlberg's progressive liberalism with its concerns for universal justice, dignity and emancipation. Others include Gilligan, (1982) whose principle of care emphasizes the values of warmth, caring and love with the assertion that these traditionally female moral mores have been under-rated in Kohlberg's model and Hosmer (1991) whose philosophy is in line with the "Radical Economic Libertarianism", which strongly emphasizes the profit motive and that what is good for the company will end being good for society as a whole.

The ongoing Green Revolution also impacted greatly on the development of ethical thought. Various writers like Hirsch (1977), Robertson (1985), Underwood (1989) and Moon (1989) voiced their concern for the

destruction and depletion of nature and natural resources which stems mainly from the obsession with material wealth and a gross disregard for the environment.

2. 3. Business Ethics as a Management Tool

The study of business ethics as a management tool really took off in the 1960s when researchers initiated pilot surveys of managers' attitudes towards business ethics. (Baumhart, 1961). Not surprisingly, some thought that the whole exercise was merely a passing fad since media attention was then strongly focussed on the burgeoning consumer rights movement. But, interest has climbed within a span of 30 years and this was fuelled no less by regular media coverage of ethical lapses within the business community.

The need for ethics in business began to be recognised by both consumers and businesses alike. Laczniak and Murphy (1991) reported that the majority of Americans believe that most business people regularly participate in ethical transgressions and 76 % of the American public feel that a lack of business ethics in business managers contributed to the decline of US moral standards. McDonald and Zepp (1989) cited empirical studies that French, German and American managers have overwhelmingly agreed that sound ethical practices are good business in the long run.

Significantly, ethical lapses are not wholly confined to the business realm. Ethical problems literally affect every institution of society including government, religion, education, philanthropy and sports.

Interestingly, Nobel prize-winning economist Milton Friedman (1970) argues that the only legitimate role of business is to generate profits for stockholders. He further asserts that dwelling on ethical considerations for their

own sake perverts its true purpose. According to him, one who spends on solving social problems acts irresponsibly. There are however others who feel business must embrace social responsibility apart from profitability (Davis, 1975). Other writers have gone a step further to say that when business make service to society its objectives, profits will automatically be obtained when it is serving society. Nonetheless, both Friedman and Davis concurred that socially responsible behavior ultimately benefits the organisation in two significant ways : it can stave off government intervention through regulation and at the same time generate good publicity which will enhance its corporate image and the product or service it is selling.

Another academician who joined the debate was Albert Carr (1968) who created a storm of controversy with his suggestion that most bluffing in business might be regarded simply as a game strategy which does not reflect on the morality of the bluffer. According to him, the ethics of business are game ethics and as such business bluffing is ethically justified.

On the other side of the spectrum, Solomon and Hanson (1985) argued strongly for the practical relevance of ethics in business. They rejected the premise that business is fundamentally amoral and immoral. In their view, business is not merely a blind scramble to maximise profits. It can also be seen as an established practice with fixed rules and expectations and where people operate in confidence as professionals. Whilst conceding that unethical behavior sometimes pays, in the long run however, there is no conflict between business behavior and success.

Collins (1994) in her article "Is Business Ethics an Oxymoron" reinforced the argument when she articulated that business and ethics are not contradictory. The way she sees it, good ethics is synonymous with good management. Goyder and Locke (1995) also confirmed that the success of tomorrow's companies would also be measured by ethics, sense of values and

the value attached to shareholders. According to them, a recent survey conducted in the United Kingdom showed that consumers chose products based on their knowledge of those companies' ethical values.

2.4. Business Ethics in Malaysia

Although business ethics has gained a credible following in the Malaysian management scene through an adoption of this subject in business school curriculum in recent years, it is pertinent to note that not much empirical work has been undertaken. Most of the focus thus far has been primarily on the banking industry, which gives one the impression that ethics is solely the domain of the financial sector, which is unfortunately not true.

In the financial industry, a noteworthy attempt was made by Zabid (1989) who conducted a survey of bank managers' perceptions of unethical practices based on their responses to various hypothetical business situations. Another publication by Choo (1993) examined the role of ethics in credit management in Malaysian banks.

Gupta and Sulaiman (1997) initiated a survey of 90 bank managers in the Klang valley and Penang to gauge their perceptions on ethical issues and reported that whilst nearly all of them affirmed their strong belief in the relevance of ethical practices for long-term success in their business endeavors, practical realities in contemporary environment required many of them (48.3 %) to make compromises. They further reported that when respondents were asked to state their views for bank managers engaging in unethical behavior that had resulted in personal gain, 85 % of them felt that these bank managers should be punished. This is contrasted with the perception of the respondents, whereby only 50.6 % of them felt that the bank managers should be punished if their engaging in unethical behavior had resulted in corporate gain.

13

It is important to note that Bank Negara Malaysia, in response to the need for self-regulation, formulated a code of ethics for bankers in 1989. The code provides general guidelines in important areas of business behaviors to be followed by all banking organisations in Malaysia. Additionally, individual banks are encouraged to have their detailed codes in conformity with these prescribed guidelines.

Gupta and Sulaiman's survey produced two significant results, that is, respondents (88 %) were in agreement that the availability of ethical codes by organisations would raise the ethical level of business behavior, and the respondents (95 %) also agreed that ethics training could help to boost or enhance higher ethical behavior.

In a landmark study of 81 managers of KLSE-listed firms, Zabid and Alsagoff (1993) found that Malaysian managers have high perceived ethical values. Nonetheless, the majority of the respondents were of the view that the current ethical standards have declined as compared to the situation 15 years ago. Another finding was that the behavior of one's immediate superior appears to be a crucial factor in influencing unethical practices among managers.

Elsewhere, Lang and Ho (1997) touched on fiduciary duty in small and medium-sized businesses. According to them, a fiduciary relationship is one where the agent must act with " utmost good faith and loyalty " in the best interests of the principal who has delegated his or her power to the agent. Lang and Ho felt strongly that lower standards in corporate ethics remain unjustified and small and medium-sized businesses need to uphold more than ever the principle of strict fiduciary duty to their publics.

Malaysia has set in motion the target of achieving a developed country status by the year 2020 as guided by the vision of the Prime Minister

Mahathir Mohamad. Alhabshi (1992) cautions that enroute to this achievement, Malaysians in general and businesses in particular should not sacrifice their moral and ethical values. He suggested that companies in Malaysia should practise ethical behavior on 4 levels, such as :

- ◆ Level 1 - Societal, in which the company can relate to issues in society including public policy and the environment.
- ◆ Level 2 - Stakeholders, which includes suppliers, customers and shareholders.
- ◆ Level 3 - Internal policy, which emphasizes employer-employee relationships.
- ◆ Level 4 - Personal level, such as the way people treat one another in the organisation.

Mulva (1993) agreed that a strong sense of business ethics remain one of the more essential elements for Malaysia's quest to achieve Vision 2020. He advocates that although the primary responsibility of managers is to produce an acceptable return on investment, in the long run, shareholders are best served when managers attempt to satisfy the expectations of all parties that have a stake in the company.

2.5. Business Ethics in the Hospitality Industry

The hospitality industry is no different from other endeavors in that its people constantly feel the stress of marketplace reality. There is of course the realization that making a profit is necessary for survival but at the same time, so are product quality and consumer satisfaction.

Internationally, with more than 101 million people in the tourism industry generating an estimated economic force of US $ 2 trillion annually, the

need to consider ethics is great (Whitney, 1992). Clearly, ethics is an integral part of providing a quality service both domestically and in foreign markets, and in the final reckoning, the competitive advantage in the global market is with the ethical, quality-driven enterprise.

Kennedy and Lawton (1993) attempted to identify the major inter-organisational factors affecting ethics for service organisations. According to them, the ethical stance of members of service organisations is likely to be highly volatile and easily compromised in the coming years given the increasing levels of uncertainty that are predicted to happen within the wide domain of the service industry. Obviously, this has ramifications for the tourism industry.

In fact, ethical strain often results when short-term opportunities to maximise profits come at the expense of long-term quality concerns. In a sense, the relationship between ethics and profits is a rather tenuous one, and in many instances, corporate responsibility, rather than being the cause of increased profitability, may instead be a consequence of it (Vogel, 1988).

Generally speaking, a myriad of issues and problems in the tourism industry can be tied to ethics or lack thereof. However, it is surprising to notice the lack of attention ethics have received in the tourism literature until recently. Few research articles (D'Amore, 1993; Krohn and Ahmed, 1991; Wight, 1993) dealing with ethics have been published and the treatment of ethics is rarely to be found in tourism and hospitality books.

The importance of a code of ethics was underlined by Raiborn and Payne (1990) when they formulated one based on four values of justice, integrity, competence and utility. According to them, each of these qualities can be applied in 4 different degrees : theoretical, practical, currently attainable and basic. Payne and Dimanche (1996) advocated that a resulting code of ethics should include the following :

That the tourism industry must recognise :

- ♦ that its basis is the environment, which is a limited resource and as such, sustainable economic development requires limits to growth,
- ♦ that it is community-based, and that greater consideration must be given to the sociocultural costs of tourism development, and
- ♦ that it is service-oriented, and that it must ethically treat employees as well as customers.