**At What Cost?**

Operations refers to the day-to-day activities needed for continued business functioning. These activities include purchasing the materials needed to make products or maintain the company’s facilities, storing inventory, shipping products to customers, etc. The primary ethical conflict in operations—and perhaps in all of business—is how to maximize profits and minimize expenses without acting unethically.

Many ethical conflicts are industry-specific. For example, farmers must determine whether or not to use certain pesticides on their crops, and companies that produce alcoholic beverages must determine whether or not their advertisements might appeal too strongly to underage consumers. Certain ethical conflicts, however, are universal in business, and the drive to maximize profits at all costs is certainly one of them.

One of the simplest ways to maximize profits is to minimize expenses. If a business can make the same amount in sales, but spend less money doing it, it will have more money in hand to either pay its owners or shareholders or to reinvest back into the company. Many people believe that a business’s number one ethical obligation is to remain profitable for its shareholders. But other people think that a business has ethical obligations beyond just profitability.

While cutting costs may boost profitability, it may also result in:

• Employee lay-offs

• Reduced employee wages or benefits

• Reduced product quality (from using cheaper materials or less-experienced workers)

• A drop in employee morale (enthusiasm, confidence)

• A drop in productivity and efficiency

• Fewer taxes being paid by the company (if finding tax loopholes is used as a cost-saving measure)

• Reduced charitable giving and community involvement

• An inability to meet customer needs

Any one of these outcomes has the potential to negatively affect a business. And if efforts to cut costs give rise to multiple negative outcomes from our list, the end result—despite initial increased profitability—can be disastrous for a business.

As you can see, the increased profitability a company gains by cutting costs may not always be used to benefit everyone who has a stake in the business. If a company’s shareholders receive higher dividends (payouts) because profits are higher, but 100 employees lost their jobs to make that happen, is the business acting ethically?

**Summary**

The primary ethical conflict in operations—and perhaps in all of business—is how to maximize profits and minimize expenses without acting unethically. Cutting costs can boost profitability but can also create many potentially negative outcomes. Every business must deal with this ethical question.

**Day to Day**

The overall responsibility to maintain business ethics lies with a company’s owners and managers. However, individual employees are also accountable for their actions during the course of their daily work activities. Let’s take a look at specific operations tasks and the potential ethical conflicts or dilemmas involved with each of them.

Ethics in using company equipment. Businesses own a lot of equipment—everything from vehicles to cell phones to tools to printers. There are ethical and unethical ways for employees to use this equipment. First, employees must consider the boundary between professional and personal use. Some company equipment, such as a forklift or heavy machinery, may be completely off-limits for personal use. Other equipment, such as the copy machine or the breakroom dishwasher, may be approved for personal use, but that doesn’t mean that employees can do whatever they want with them!

It's important for businesses to give employees clear instructions about what constitutes appropriate personal use of company equipment. Personal use of company equipment adds wear and tear but does not contribute to making a profit. It also exposes the equipment to the possibility of being broken or needing replacement more quickly. Using a company vehicle is a great example. If an employee uses the vehicle for personal travel, the miles on the vehicle will add up faster, meaning the company will have to service the vehicle more often and replace it sooner. A clear policy for use of the company vehicle can help prevent costly, unethical behavior. For instance, a company may say that the employee is permitted to use the vehicle for personal travel within 20 miles of his/her home, but no further.

When an employee has been given permission to use company property for personal reasons, how should the employee treat the equipment? Many times, employees treat company equipment with less care than they do their own belongings. However, the ethical thing to do is to take proper care of the company equipment. Using company equipment for personal reasons is a job perk. If even a few employees abuse the privilege, it might be lost for everyone.

Another ethical issue in the use of company equipment is the question of how to balance technology monitoring with employees’ right to privacy. Many employees use company computers, both in the office and at home or while traveling. Companies have the right to monitor employees’ use of technology, and they do so for various reasons. Many financial firms, for example, must make employee emails available for audit by the Securities and Exchange Commission.

Sometimes, companies monitor employees’ computer use as a way of encouraging employees to stay on task. Time theft can be a serious problem in some businesses. It happens when employees waste time on personal tasks, such as emailing or playing games, when they should be working. Time theft causes a loss in productivity and, eventually, profitability as well. When employees know their computers may be monitored, they tend to stay on task more successfully. However, where does the business draw the line when it comes to monitoring employee activity and potentially violating the privacy of their personal emails, phone calls, etc.? Do employees have the right to expect privacy when using company equipment?

Ethics in inventory management. Managing a business’s inventory is a big part of operations. Some businesses deal with huge inventories, while others’ inventories are quite small. Service businesses don’t keep inventories of products to sell, but they still have inventories of supplies on hand to keep business operations running smoothly.

A number of ethical conflicts may arise in inventory management. Inventory managers may be tempted to sell damaged or expired inventory so that the company doesn’t lose money having to throw it away. It can also be easy to manipulate inventory figures to make it appear as if the business has more in stock than it actually does. This might boost sales, but it can create a greater lag time between when a customer orders a product and when s/he receives it.

Another ethical conflict in inventory management involves the ways in which certain products should be stored. For example, certain food products should be stored at designated temperatures, certain pharmaceutical products should be kept away from direct light, and books and other paper goods should be placed away from anything that might ignite a spark (e.g., a designated smoking area). Often, there isn’t anyone to police proper storage methods outside the business itself. It might be easier or even cheaper to cut corners sometimes, but it certainly wouldn’t be ethical.

Ethics in purchasing. Purchasing is the process of obtaining the goods and services needed to run a business. Some businesses have full-time purchasing employees, while others divide the responsibility among employees or leave it up to the owner. No matter what the business does, it will need to purchase certain products to run efficiently and effectively. Some purchases are one-time purchases (e.g., a building), some are occasional purchases (e.g., tools or equipment), and some are ongoing (e.g., raw materials, office supplies, etc.).

One of the main ethical dilemmas in purchasing involves quality. High-quality materials usually cost more than low-quality materials. It may be tempting to purchase cheaper materials as a way to minimize expenses and maximize profits. However, low-quality materials result in low-quality products. Over time, selling low-quality products can hurt both a business’s reputation and its profits.

Purchasing can also get tricky if it involves a conflict of interest. A conflict of interest occurs when an employee finds her/himself in a situation in which s/he can’t truly be impartial (fair). Here are a few examples:

• Andrea is a cheerleading coach, and she also has a business making and selling hair accessories. The female cheerleaders on her squad are required to wear matching hair bows for cheerleading competitions. Andrea can make and sell the cheerleaders the needed accessories and even give them a discount—but is it ethical?

• Harrison is in charge of purchasing at the auto-repair garage where he works. His brother owns an auto parts store. Is it ethical for Harrison to purchase parts for the garage from his brother’s business?

Emilia is an office manager for a group of physicians. She doesn’t determine which drugs the physicians prescribe, of course, but she controls which pharmaceutical representatives get appointments to see the doctors. Many of these reps treat Emilia and the staff to nice lunches in addition to bringing samples and other small gifts. It isn’t illegal, but would you say that this might be a conflict of interest for Emilia?

Here are some other ethical questions to consider for employees involved in purchasing:

• Is it okay to use your employer’s purchasing power for personal gain? For example, should you use your business’s discount when buying something for yourself?

• Let’s say you have a friend who works at another company and is considering using one of the same suppliers that you use. Is it okay to show your friend the supplier’s pricing list and the quotes the supplier has given to your business? It may seem harmless, but you might be taking away the supplier’s ability to negotiate freely with a new client.

• Do businesses have an obligation to purchase products from ethical sources? The standards for this might include limited environmental impact, safe working conditions, and fair wages for employees. Buying from less reputable sources is usually less expensive than buying from highly ethical sources, but it’s often tempting to cut corners in this area, especially when customers are unlikely to notice the difference.

Ethics in reporting safety violations. Although safety may seem more vital for some businesses than for others (there are more risks involved in trimming trees than in preparing tax returns, for example), all businesses must take steps to ensure that their workers will be safe on the job. This includes making sure all employees are properly trained and that they understand where and how to report potential safety violations.

Employees may face ethical conflicts when determining whether or not to report a safety violation. They may not want to do so for a number of reasons. They may not want to tell on someone else, or they may not be paying close enough attention to their surroundings to notice safety violations when they occur. Or they may just not feel that it’s their job to watch out for those things.

For example, Gina notices that her coworker, Bob, is not wearing his safety glasses while he is working on the assembly line. It’s a safety violation, but Bob has been on the job much longer than Gina, and she knows he doesn’t like wearing them. What do you think? Does Gina have an ethical obligation to report the situation?

Ethics in reporting environmental violations. Doing business always involves a certain number of externalities, or liabilities that can’t be quantified. For instance, if a business owes a creditor $10,000, that’s a liability that’s easy to quantify (assign a monetary value to). But what if a business pollutes a stream and harms the fish that live there? The impact of that action is not easy to assess because it affects so much more than finances.

Although environmental damage is an externality, businesses can’t ignore the impact that operations have on the world around them. How businesses are run really matters! Studies have even suggested that almost 40 percent of all deaths worldwide can be tied to environmental pollution.

Businesses should aim to do as little environmental harm as possible while conducting business operations. While this looks different for different businesses, it usually means things such as becoming energy efficient, avoiding pollution (air, water, soil, etc.), and conserving natural resources.

Businesses and employees may face ethical conflicts when determining whether or not to report an environmental violation. Reporting environmental violations may be time-consuming or costly. In addition, if the company reports an environmental violation, and the information becomes public, it can cost customer goodwill. If the violation is not likely to be caught, it can be tempting to sweep it under the rug.

Final thoughts

As you’ve learned, there are many potential ethical conflicts in operations. A good policy for any business is to have a written ethical code that can be shared with all employees. Businesses should make integrity an important characteristic during the hiring process. It’s difficult to run an ethical business without ethical employees.

As an employee, if you have doubts about the ethical thing to do in a certain situation, you shouldn’t be afraid to discuss it with coworkers and managers. They can probably help you determine the right course of action! Often, your own conscience is the best guide.

**Summary**

Business owners and managers are responsible for maintaining business ethics; however, employees are also accountable for their individual actions. Ethical conflicts may arise in areas of operations such as using company equipment, inventory management, purchasing, reporting safety violations, and reporting environmental violations. Businesses should have written ethical policies and make integrity an important characteristic during the hiring process.