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Managing Ethical Dilemmas in Non-Profit Organizations

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Abstract

In dealing with ethical issues, non-profit managers are often faced with dilemmas that defy a simple choice between right and wrong. When there is no obvious way of prioritizing responsibility, and no precedent to emulate, resolution of such dilemmas demands careful consideration of stakeholder expectations when looking at the ethical options, so that decisions satisfy not only the immediate problem but also align with the organization's mission, values and ethical code. This paper follows research that examined the types of ethical dilemmas experienced across thirty-seven non-profit organizations, where it was found that a reliable method for depicting and resolving dilemmas was needed. The paper uses three cases, drawn from non-profit organizations in Australia and Taiwan, to introduce the Business Ethics Synergy Star (BESS) - a technique that allows non-profit organizations to concisely depict a dilemma and then resolve it, and a step-by-step process associated with BESS, known as the Seven Cs.

Introduction

Non-profit organizations face some ethical dilemmas not usually faced by their for-profit counterparts. This may be because they are more inclined to be constructively attempting to do 'the right thing' or because they are often driven predominantly by social goals, as opposed to wealth maximization goals. Either way, research shows evidence that the problems experienced by non-profit organizations are unique and distinct. These include issues such as:

- Accountability to sponsors, donors and funding institutions
- Internal human resource issues
- Internal ethical reporting
- Mission compliance
- Conflicting stakeholder requirements

In dealing with these issues, non-profit managers are often faced with dilemmas that defy a simple choice between right and wrong. These dilemmas usually occur when there is no single correct course of action, no easy way of prioritizing responsibility, and no precedent to emulate. In such circumstances, non-profit managers need to be acutely aware of stakeholder expectations, ethical issues pursuant to them, and the

ethical options available, in order to make wise decisions that satisfy not only the immediate problem but also facilitate long-term viability.

In so doing, non-profit organizations sometimes seek to cast solutions in concrete through the use of codes or manuals of procedure. They may, however, also seek to develop an ethical intelligence, being the combined wisdom of solved ethical issues. This combined wisdom entails, rather than generic solutions, a generic method of defining and resolving ethical dilemmas. The development of ethical intelligence is thus facilitated by the mastery of a technique, known as the Business Ethics Synergy Star (Robinson, 2005). This paper draws on the findings of research conducted in over 37 non-profit organizations in Australia, with specific reference to cases pertinent to the above-mentioned issues of general concern.

This paper examines some types of ethical dilemmas experienced in non-profit organizations and illustrates the use of an innovative technique, known as the Business Ethics Synergy Star (BESS) to deal with them.

Literature Review

When one asks the question "What is the right thing to do?" it usually means he/she is searching for the most appropriate moral action. In our ever-present inner search for 'right', we are consciously or unconsciously engaging in ethics, which in its most basic form is simply 'the philosophical reflection on moral issues' (Robinson D, 2002).

But if morality changes over time, with societal norms and regulatory statutes, then how can one know for sure what is moral? Certain minimum conditions for morality have been defined (Rachels 1993; Boylan 2000) and are included here as a foundation for identifying what aspects of non-profit business decisions might give rise to an ethical dilemma:

- Morality as responsibility, i.e. acting in accordance with other people's concerns, rights and expectations. That means not only refraining from doing things that cause harm to others, but also actively pursuing their welfare – it implies the imperative to do as we say and believe.
- Morality as concern for others, i.e. understanding how others experience a loss, for example, which compels us to not want to impose a loss on another.
- Morality as reason, i.e. they should be justifiable according to an objective set of criteria
- Morality as consistency, i.e. similar cases are treated similarly without double standards.
- Morality as universality, i.e. the same conditions must be applied to all concerned.

The above five form a convenient checklist for non-profit organizations who wish to ensure that their decisions are ethical. Problems occur when one or more of the above conditions do not appear to be fulfilled by an anticipated business decision. Non-profit organizations need to choose the best under the circumstances. So how do non-profit organizations make the best choice?

One way to deal with an ethical dilemma so is to seek out an applicable rule, norm, value or example to follow, then seek to apply normative ethics, i.e. that branch of philosophy concerned with moral obligation and intrinsic value in the actions and character of human beings (Boylan, 2000). The two main branches of Western normative ethics are virtue ethics and rule-based ethics. Where virtue ethics focuses on the formation of character to equip people for good citizenship, rule-based ethical theory seeks to evaluate moral considerations against a set of rules in determining what is regarded as acceptable behavior.

The social perspective- virtue ethics

A virtue is a relatively stable character aspect that disposes a person to act in a benevolent way. In Aristotelian times, it was believed that a community made up of people of good character would naturally become a good community. Thus, it was propagated that morality should be formed as part of one's character (Negri 1988), such that we would be morally equipped to act always in accordance with our personal values.

The legalistic perspective – rule-based ethics

There is sufficient evidence of crime and corruption all around us in this age to show that we do need rules and laws to guide and direct people's behavior if we are to enjoy a fair and just society. Perhaps it is precisely because of the multiplicity of rules

and laws that ethics is today a seldom discussed topic, which seems only to surface when rules or laws are indeed transgressed.

Two rules may be applied, namely:

- Consequentialism, under which actions should be judged according to their consequences, and
- Deontology – under which the opposing view is assumed, i.e. that the judgement of rightness or wrongness of any action is not dependent on consequences, but rather on the intrinsic goodness of the action, in and of itself.

(These two rules are different from “rule-based” rules. I think rule-based rules are coded rules, the two rules here are more or less “principles.”)

when we say little voice inside everyone, it is again not “rule-based.” It’s somewhat like conscience now.)

The teleological perspective – consequentialist ethics

The most popular consequentialist rule is utilitarianism – the belief that “an action is morally right when that action produces more total utility for the group as a consequence than any other alternative does” (Boylan 2000: 66). The goal of utilitarianism is often stated as the greatest good for the greatest number (Boylan, 2000; Rachels, 1993). Weiss (2003) extends the utilitarian concept to business by going beyond the traditional, idealistic definition of ‘greatest good for the greatest number’, introducing the following tenet (Weiss, 2003: 80): An action is morally right if “the (immediate and future) net benefits over costs are greatest for all affected”. Such an approach to morality is similar to the cost-benefit analysis that is commonly used in business decision-making. Weiss thereby attempts to make the utilitarian label fit into a pragmatic business context, but the weighing of benefits against costs cannot qualify as a normative ethical approach to decision making unless it simultaneously complies with all of the conditions for morality. Since the cost-benefit approach can be utilized quite independently of any ethical conscience, the entrepreneur is still left without any real method of ensuring ethical correctness.

Consequentialist ethics is also at the foundation of hedonism, where priority is given to the pursuit of immediate personal pleasure. This has negative implications for the field of non-profit organizations, where, for example, robbing a bank might be an acceptable action (from a hedonist’s perspective) but immediate personal pleasure is unlikely to lead to long-term happiness (eg. the robber becomes a fugitive or a prisoner). An astute risk taker might weigh-up the probability of being caught and decide to go ahead and rob the bank anyway. So, a form of consequentialist reasoning is found in ethical egoism, where conflict of interest between what is good for oneself and what is good for society is resolved by the individual simply placing his own happiness first. Egoism cannot be propagated as a universal moral principle, as it contradicts many of the minimum conditions for morality, such as responsibility and concern for others. Alternatively, altruists regard concern for others as more important than concern for themselves. Based on the above, it seems important to know whether or not non-profit organizations tend to rely on consequentialist-type reasoning when faced with ethical decisions.

The law of the musts - deontology

Deontology, by contrast to consequentialism, focuses purely on the intrinsic rightness of an action, without regard for its consequences. Deontologists believe in the absolute necessity of duty, irrespective of the rewards or punishments that may follow. So, for example, the deontologist would not tell a lie, even if by so doing he/she might save the lives of many people. Following long-held western hemisphere religious dogma, Immanuel Kant (1724-1804) insisted that two concepts, in particular, are necessary for consistent moral behavior, namely human reasoning and goodwill. He defined goodwill as the will that obeys the universal moral law. As some duties are absolute, e.g. the duty to tell the truth, others are not, e.g. the duty to exercise, there are two forms of imperative - the categorical imperative is a universal moral obligation that is not dependent on anything, and the hypothetical imperative is a conditional moral obligation. Kant's Categorical Imperative requires people to always act in such a way that they can, at the same time, wish that everyone would act in that way. For deontologists, moral actions are always rational actions, so the primary value of these imperatives is to provide a way to reason with the question of, "What is right?" In practice, this can be achieved by applying the maxim: "If everyone did this, would it still be okay?" Deontology is not unlike virtue ethics, in the sense that as a moral theory its goal is for everyone to act virtuously at all times. The main difference is that it seeks to prescribe moral duties by promoting an imperative to act morally, assuming that people will not, of themselves, always act in virtuous ways. It supports most of the minimum conditions for morality, in particular responsibility, concern for others, consistency, universality, and reason. Non-profit organizations, however, resides in a world where they obtain their highest value from being different from others, i.e. they seek to be the first, the best, the quickest, the cheapest, the most innovative, so it is unreasonable to expect them to base their decisions on what everyone else would do.

With the advent of a 'global village' and the resultant exposure to different cultures, people are now realizing that what is right in one culture is not necessarily right in someone else's (Robinson, Davidsson, Van der Mescht and Court, 2007). This has given rise to cultural relativism. Adapting to the cultural mores of a foreign country with which one is attempting to conduct business was once considered a moral duty but certain countries have recently declared it a questionable practice. How then can cultures ever agree on what is ethical?

Notwithstanding the importance that has been placed on deontology and consequentialism in the past, the authors contend that ethics is not primarily about judging conduct after the event, but instead believe that ethics is, more appropriately, about the little voice inside everyone, calling them to reason and pre-meditated accountability for their actions.

The stakeholder perspective incorporating Chinese Guanxi

Business Ethics in some cultures is rooted in traditional culture. This is especially true in parts of Asia. Confucianism, for example, advocates a number of important values that underpin human relations and interactions, but its substance is centered on four unique yet inter-related concepts (Tu Wei-ming, 1995). The first of these is the central value of goodwill (*ren*), which identified the capacity of the human person to extend generosity and compassion to all of humanity. It promotes reflection on one's

allegiances and maintains that the ultimate allegiance is not to one's state, but to the human community through goodwill. The second is protocol (*li*), which means that every person should respect and follow the rules of proper conduct. These were the unwritten laws and regulations that governed thought and action in society and regulated human behaviour and desire. The third is filial piety (*hsiao*) which teaches people to love their family first and then to extend this love and respect to the rest of society. The fourth is the doctrine of the mean (*zhong yong*) that teaches an appreciation of central virtues that achieve the necessary balance between extremes. It is believed that if people adhere to the doctrine of the mean they achieve the desired harmonious balance, which is considered essential for a harmonious society.

Within such a business system, these perspectives affect non-profit organizations' thinking when they make decisions. The principles manifest as a desire to respect the mean, regard humanity as the basic element, and concern for honesty, morality, and harmony. Chinese business and community leaders also consider the economic well-being of their country to be their responsibility (Qizhong Zhu, Chuanqing Wu, 1996). They also seek constant, consistent long-term development and sustainability by applying these universal principles.

An appreciation of *guanxi* is essential to understanding Chinese business behavior. *Guanxi* can be defined as a principle encompassing "pre-existing relationships of classmates, people from the same native-place, relatives, superiors and subordinates in the same workplace, and so forth" (Y.H. Wong, 2000). Since these relationships define how members of society behave in relation to each other, Although *guanxi* is based on a societal system that arguably has its origins in Confucian thought, still today, *guanxi* describes an invisible network of personal relationships that can and do invariably provide the most efficient way of getting anything done.

Traditionally, there are five *guanxis*, also known as the five 'lung'. These are emperor-subject, father-son, husband-wife, elder-younger brother and friend-friend, making up a hierarchy of relationships. The hierarchical ordering of special relationships dictates the appropriate social status and responsibility of a person in the society. The concept of a hierarchy is not unlike Ross's (1930) *prima facie* duties, and therefore, in a sense, an adaptation of deontology.

These five natural orders, however, are somewhat different from the *quanxi* of current literature. They were intended to define appropriate ways for people to behave toward each other. For example, how father should behave towards son, or vice versa.

This traditional use of the word could be the reason some people misunderstood *quanxi*. In current literature, *quanxi* is more a favor exchange relationship. *Quanxi* is a dynamic relationship. *Quanxi* is an exchange relationship which depends upon each person's position to each other at a specific time. For example, a classmate can be very powerful ally for an initial exchange, but the exchange relationship process needs to build trust if it is to become ongoing *guanxi*. Trust can be strengthened or weakened depending on the exchange processes. If trust is weakened, classmate or kinship relationship will not count any further.

From Chenting Su and James E. Littlefield's point of view (2001), there are two main types of *guanxi*, namely favor-seeking *guanxi* that is culturally rooted, and rent-seeking *guanxi* that is institutionally defined. Notwithstanding this modern-day distinction, the fostering and nurturing of personal relationships is a fundamentally important social behavior in the life of the Chinese people (Leiduo, 2005), to the extent that it is often the network itself, i.e. *guanxi*, that is the ultimate, collective 'decision maker' (Ford, 1997). Thus when Chinese non-profit organizations make any decisions, and more especially a decision containing an ethical component, they will undoubtedly think about whether it will profit their own social relationships. Without *guanxi*, or with a bad *guanxi*, non-profit organizations would be greatly limited in their ability to accomplish anything.

The real ethical element to *guanxi* becomes apparent only when there is conflict in that which is expected of someone, by virtue of competing expectations. For example, if their *guanxi* responsibility dictates that they should behave in a way that may be incompatible with another social or moral responsibility.

The holist view - Business Ethics Synergy Star (BESS)

Kierkegaard (1959), speaking from an existentialistic perspective, suggested that, where morality is concerned, one is obligated to make definitive choices, which are facilitated by reducing them to 'either/or'.

He who would define his life task ethically has ordinarily not so considerable a selection to choose from; on the other hand, the act of choice has far more importance for him... it is not so much a question of choosing the right as of the energy, the earnestness, the pathos with which one chooses. (Kierkegaard, 1959: 171)

In this relativist sense, the ethical question becomes not so much, 'What is right?', but rather, 'How committed is one to following through on your decision'. Non-profit organizations should be more concerned with implementing the most appropriate course of action than choosing one that conforms to any particular ethical theory or principle.

To facilitate this resolve, the Business Ethics Synergy Star technique (BESS) has been developed. The generic form of the Business Ethics Synergy Star is illustrated in Figure 1 below:

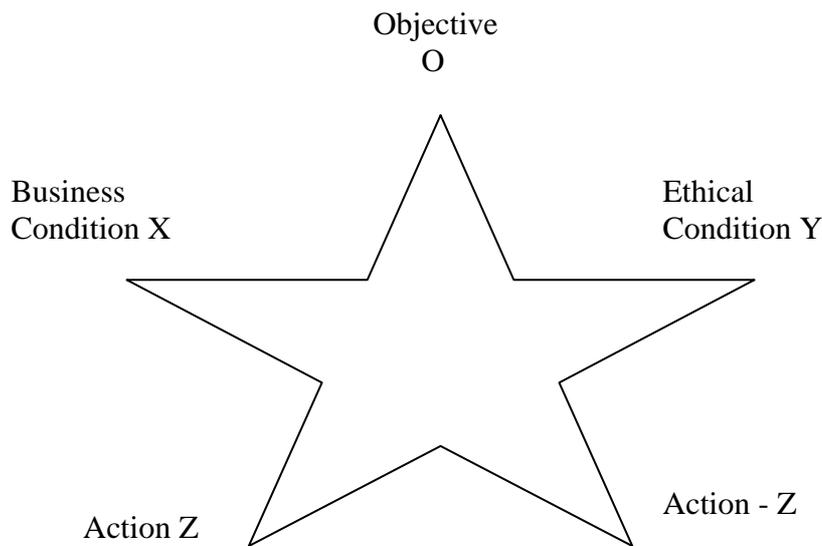


Figure 1: The generic format of a Business Ethics Synergy Star (BESS)

BESS is constructed by first defining the desired outcome (referred to as O), then stating succinctly its two complementary necessary conditions - one defining the business or mission consideration (known as the X condition) and the other representing the ethical consideration (known as the Y condition). In order to construct the Business Ethics Synergy Star (BESS) consistently, the business condition is always placed in the X position and the ethical consideration at Y. The final step is to define the respective pre-requisite actions for X and Y, where Z is the action needed to support the desired business condition (X) and -Z is the action needed to support the ethical condition (Y). It is a feature of BESS that Z and -Z are exact opposites.

In applying this technique, the following logic holds:

- In order to achieve a desired outcome (O), X is a necessary condition;
- In order to achieve the same desired outcome (O), Y is also a necessary condition;
- Therefore, X and Y are BOTH necessary conditions to achieve the desired outcome (O);
- Now, in order to have condition X, Z is a necessary action for the creation of condition X;
- And, in order to have condition Y, -Z, is a necessary action for condition Y;
- But -Z is an action that opposes Z;
- Therefore it is not possible to action both Z and -Z;
- Thus either condition X or condition Y appears to be unavoidably obviated;
- Therefore it appears that objective O is unattainable.

The use of BESS in depicting an ethical dilemma is illustrated in the non-profit organizational context, by the following three ethical dilemmas:

Dilemma 1

John, who has a disability, receives a \$2,000.00 per week funding package from a sponsoring benefactor. The funds are sufficient to cover the cost of 24 hour support in a purpose-designed housing facility. Sharing this same house is Ian, who also receives a disability allowance. Ian's condition is more serious and he requires significantly more support but his funding package is \$1200 per week. With Ian's higher needs, this amount only equates to around 12 hours of support per day. The funding submissions for both John and Ian have been written by the same Program Manager and address their required needs clearly and with the utmost integrity and were approved by all stakeholders, i.e. family, Program Manager and CEO. Consequently the NGO administering the funds is using money budgeted for administration to supplement Ian's care needs.

Agent A's non-profit organization has been awarded the tender to audit all disability allowances sponsored by the benefactor and report back to the company that administers them. If the agency reports accurately, it is highly likely John's allowance will be considerably cut, whereas in practice the agency believes Ian's allowance should be considerably increased. The

The assignment entails confronting a number of ethical issues, namely:

- ▲ Possible untruthfulness on the part of the person who originally assessed the respective needs of these two recipients (deontological)
- ▲ Possible inappropriate allocation of funds (fiscal duties and responsibilities)
- ▲ The requirement to be transparent (disclosure and compliancy)
- ▲ Be true to the mission of the non-profit, which is to maximize the quality of life for those needing disability allowances

O

Maximize the Quality of
Lives of those living
with a disability

X

Ensure clients
are well-
supported

Y

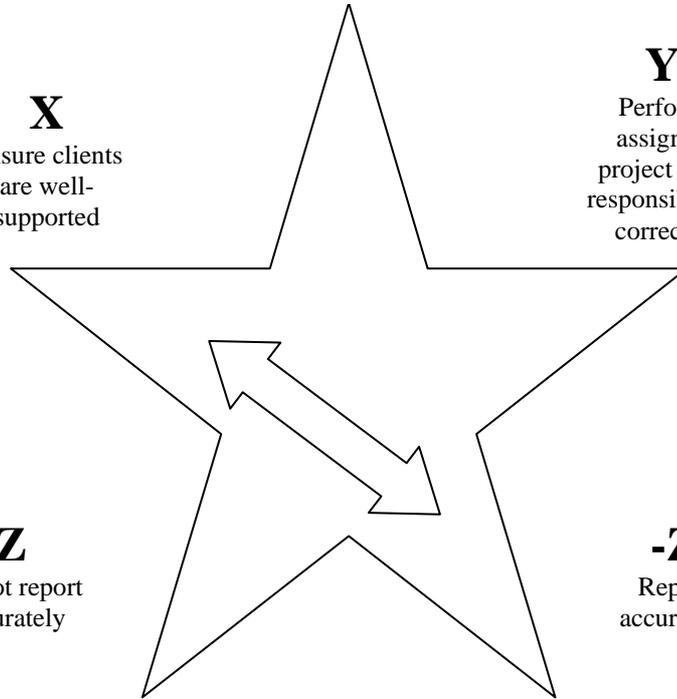
Perform
assigned
project duty
responsibly &
correctly

Z

Do not report
accurately

-Z

Report
accurately



Dilemma 2

This dilemma involves a lack of consultation with the members and senior management of the non-profit organization about a change in the status of the organization. Employee, Beatrice, is aware of issues that she feels are not being handled appropriately. The ethical issues relate to the board's apparent breach of their fiduciary duties, accountability and transparency in governance and are as follows:

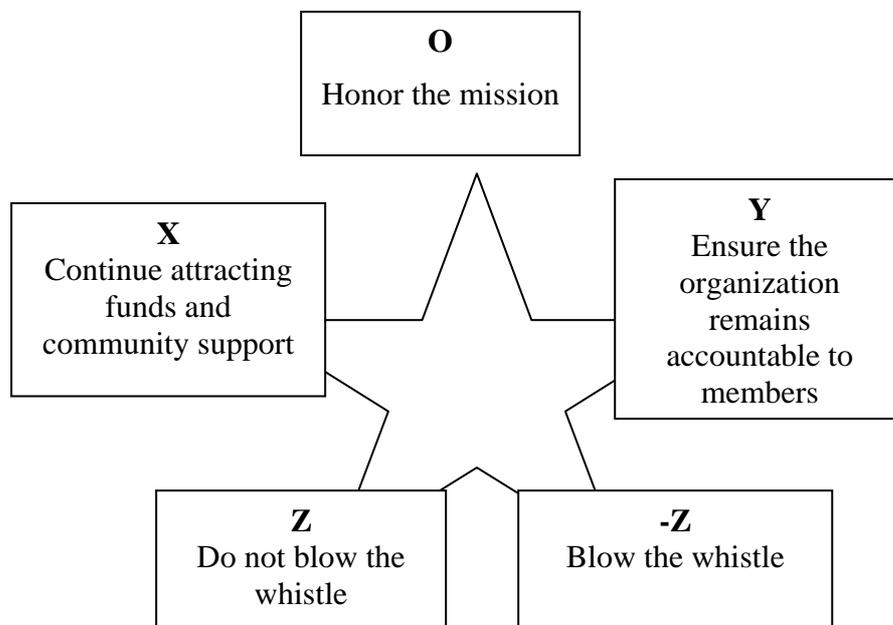
- Upward corporate accountability to the law, government, members, the board, funders and donors;
- Outward corporate accountability to clients, care-givers, the local community and wider public;
- Inward corporate accountability to staff and volunteers; and
- Inward personal accountability to conscience, professional ethics, employment contract and codes of conduct.
- Conflict of interest interfering with her ability to act impartially

Beatrice's choices appear to be to:

1. Act as a whistleblower in reporting the inappropriate actions of directors,
2. Do not 'blow the whistle' (thereby, potentially, allowing the board's proposed plan to proceed unopposed).

While she prefers not to blow the whistle, she is unwilling to place the organization's future at risk.

The Business Ethics Synergy Star for Beatrice's dilemma:



Beatrice is now able to weigh up two options, which become apparent to her, namely:

1. Call a stakeholder forum to ask the board to account for their actions (YZ);
2. Consult independently and confidentially with members and staff then draft a petition (X-Z);

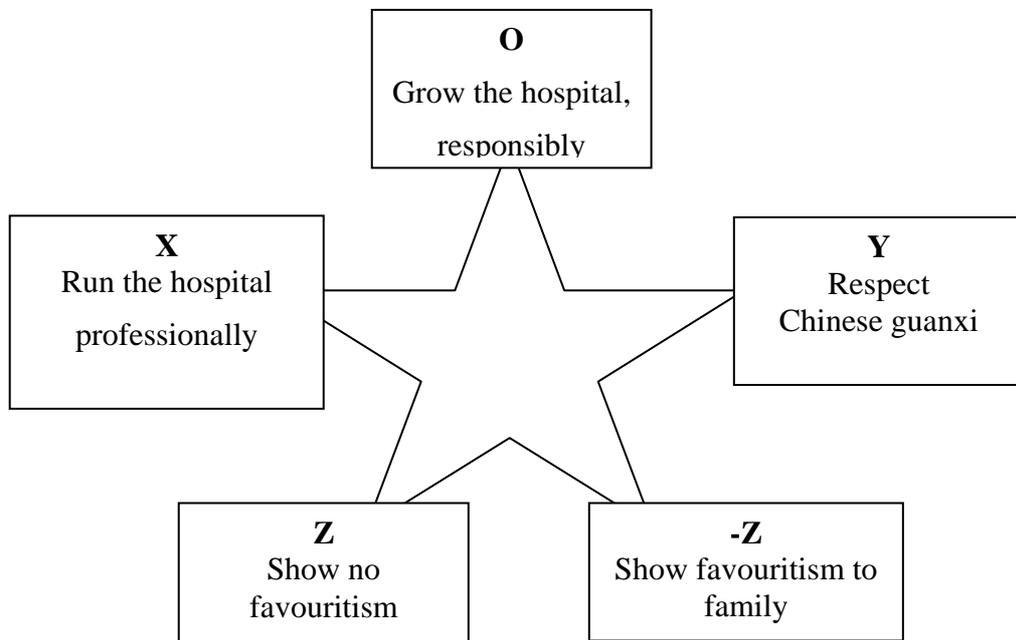
As the X-Z option would burden other members in a similar dilemma, Beatrice decided to adopt the YZ option. This allowed the non-profit organization to take steps to tighten up on its internal governance, while retaining credibility with external stakeholders.

Dilemma 3

Dr. Lin is a highly-regarded physician in the States. He returned to his native country, Taiwan, with a mission to operate a highly professionally-managed hospital. He received an initial endowment from supporters. However, it is important that he now gain enough resources from the government to keep the hospital well run. The hospital is well recognized in Taiwan and has many patients. As a result, it is somewhat difficult to obtain a doctor's appointment and a patient might need to wait for one or two months to be admitted to a patient room. A close relative of Dr. Lin wants to bypass other patients and get the privilege to see doctor ahead of other patients.

What should Dr. Lin do? He can certainly arrange this, but it violates his ethical standard set in this hospital. Dr. Lin values transparency of decision-making in his hospital and he espouses the value of equal treatment for all patients. Essentially, he does not believe in granting special privileges. His dilemma is that if he does not give his relative this privilege, all his relatives will feel shunned by him. It will appear as if he has forgotten about the importance of family in guanxi.

The Business Ethics Synergy Star for Dr. Lin's dilemma:



Dr. Lin is now able to decide on a course of action that satisfies both business and ethical conditions. The options that become apparent to him from the Business Ethics Synergy Star, are the following:

1. extend his own working hours to accommodate family members (YZ)
2. arrange another doctor to see his family (X-Z)
3. Invoke another form of Guanxi by making use of his privileged position in the hierarchy to request another doctor to see his family, where there is an implied, but not explicit, intention that he accommodate Dr. Lin's family ahead of other patients in the queue.

Discussion

While BESS has been shown to be useful in depicting the dilemma, providing a definite focus for the dilemma resolution process, some managers still find it difficult to resolve the dilemma. In many cases the difficulty lies in the fact that they are 'married' to the dilemma, or too close to it to see a way out. In essence, what is required is to take a step back and view only the X-Z, and YZ arrows, each in turn, concentrating on imagining any other situation where the respective condition and action do co-exist. This is accomplished by following a six-step approach (known as the Seven Cs, as follows:

Step 1: Concentrate on one arrow at a time, i.e. first YZ and the X-Z;

Step 2: Creatively brainstorm any and all scenarios where the two ends of the arrow can or do co-exist, without criticizing any of the ideas;

Step 3: Combine any ideas emanating from the brainstorm session that appear to be similar or contain the same underlying principle;

Step 4: Converge on one or two possible resolving courses of action;

Step 5: Consider the principle(s) underpinning the possible resolving course of action and ensure there is no violation of your mission, values or ethical code.

Step 6: Consult and confirm with all stakeholders, including those with whom some form of guanxi exists.

Step 7: Commit the resolution to writing and implement.

These seven steps will be considered using the example of the first dilemma mentioned in this paper.

Step 1: Concentrate on one arrow at a time. In this example, we first concentrate on YZ and then X-Z.

Step 2: Recall any situation (anywhere and in any context) where it has been possible to 'perform an assigned project duty responsibly & correctly' (Y) while 'not reporting accurately' (Z). Here the people tackling the dilemma might benefit from brainstorming such situations, after which they might possible identify a couple of scenarios, such as: 'in a James Bond movie' (brainstorming places no limitations on imagination), 'where there is no accountability' (hypothetical is admissible at this phase), 'where the operating officer is accountable for results only and is not measured on means', 'where there is a moral justification for breaching the letter of the law', and so on. These ideas represent one side of the equation. Now they should focus also on the other arrow (X-Z), i.e. Is there a way to 'ensure that clients are well-supported' (X) while at the same time complying with the need to 'report accurately' (-Z). They might now imagine situations where this is the case; for example: 'when clients are in fact well-supported and there is thus no need to report inaccurately'. After all ideas have been exhausted, attention is turned to the next step.

Step 3: Combine. It is usual for similarities to exist between ideas generated by brainstorming. In the above case, the notion of 'not having to consider inaccurate

reporting as clients are well-supported' (derived from X-Z) is actually similar to 'moral justification for breaching the letter of the law' (derived from YZ).

Step 4: Converge. Both ideas point to the fact that the basis of measurement should be in line with the moral responsibility. The fact that it is not true of this case appears to be the source of the dilemma.

Step 5: Consider against mission, values and ethical code. We now have the initial idea that can be developed into a way forward, i.e. we might decide to explain the unjust allocation of Ian's funding to the auditing agency and request that it be highlighted in their report to the benefactor, with a recommendation that they increase his care allowance, which is in line with the mission of the administering body, namely to maximize quality of life for those needing disability allowances.

Step 6: Consult and confirm with stakeholders. Before implementing this it may be necessary to consult with Ian's parents, the program manager, the CEO or board of directors, and the accountant.

Step 7: Commit the resolution to writing and implement.

As the use of BESS helps to channel thoughts toward a synergistic solution, the majority of ideas are generated spontaneously, and later appear obvious, even though they were far from obvious (to the user) prior to constructing the Synergy Star. In cases where feasible resolutions cannot be found spontaneously, the 'Seven Cs' approach, as outlined in the above-mentioned example, has proved effective.

Conclusion

The authors were able to resolve current ethical dilemmas in all of thirty-seven non-profit organizations, where the five essential constructs needed to produce BESS were identifiable. This paper has introduced the Business Ethics Synergy Star as a tool to portray business decisions in standardized argument formats, thereby facilitating their effective resolution in an ethical, yet non-prescriptive, non-normative way. BESS may be applied as a standard way of expressing any dilemma, particularly where business (X) conditions and ethical (Y) conditions imply opposing acts (Z and -Z). Since BESS demands that the ethical (Y) condition be made explicit, it provides a way of formatting a dilemma so as to elevate the decision beyond a simple right or wrong, by helping the organization focus on synergy. This in turn facilitates innovative forms of resolution, thereby offering a way of assisting non-profit organizations to commit to courses of action that are aligned with their particular world-views.

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