

Business Ethics in Incorporated and Unincorporated Organizations

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Abstract

Business ethics concerns the principles and practices used to judge organizational decisions as right, fair, responsible, and worthy of trust. Legal structure influences ownership, liability, governance, taxation, and accountability, but it does not remove ethical responsibility. This essay compares ethical issues in incorporated organizations such as companies and corporations with those in unincorporated organizations such as sole proprietorships and partnerships. Incorporated entities separate the legal organization from its owners and often distribute decision-making among shareholders, directors, managers, and employees. This structure can strengthen oversight but can also create agency problems and diffuse responsibility. Unincorporated businesses offer direct owner control and personal accountability, yet they may lack formal governance, independent challenge, and specialist compliance resources. Across both forms, ethical performance depends on leadership, stakeholder treatment, accurate reporting, fair employment, responsible marketing, privacy, environmental conduct, supply-chain management, and effective mechanisms for raising concerns. The essay argues that ethical systems should be proportional to organizational risk rather than limited to formal legal requirements.

Keywords: business ethics, incorporated organizations, unincorporated organizations, corporate governance, stakeholder responsibility, ethical decision making

Introduction

Businesses make decisions that affect owners, employees, customers, suppliers, creditors, communities, governments, and the environment. Law establishes minimum duties, but ethical responsibility often extends beyond what can be enforced in court. A decision may be legally permitted while remaining deceptive, exploitative, unsafe, discriminatory, or environmentally irresponsible.

The legal structure of a business influences how responsibility is organized. An incorporated organization has a legal identity separate from its owners. A sole proprietorship usually has no such separation, while a partnership is commonly based on an agreement among two or more owners. These differences affect liability and governance, but the central ethical questions remain similar: Who benefits, who bears the risk, whether stakeholders receive accurate information, and whether power is exercised fairly.

Meaning of Business Ethics

Business ethics applies moral reasoning to commercial activity. It addresses honesty, fairness, rights, duties, consequences, conflicts of interest, and the distribution of benefits and burdens. Ethics is not limited to personal character. Organizational systems, incentives, targets, culture, technology, and governance shape behavior.

Three common approaches help explain ethical decisions. A consequential approach evaluates likely benefits and harms. A duty-based approach considers obligations, rights, and principles that should be respected regardless of immediate advantage. A virtue approach asks what a responsible, honest, and fair person or organization would do. Stakeholder theory adds the requirement to consider groups affected by the business rather than focusing only on owners. (Freeman, 1984)

No single framework resolves every dilemma. Decision-makers should identify facts, stakeholders, options, legal duties, foreseeable harms, conflicts, and long-term consequences before reaching a documented decision.

Incorporated Organizations

An incorporated business is recognized as a legal person separate from its shareholders or members. It can own property, enter contracts, borrow, sue, and be sued. Shareholders usually benefit from limited liability, although directors and officers may remain personally responsible for fraud, breaches of duty, or other conduct defined by law.

Incorporation allows organizations to raise capital, continue beyond changes in ownership, and create formal governance structures. A board of directors oversees management and is expected to act in accordance with legal and fiduciary responsibilities. Larger organizations may also use audit, risk, ethics, remuneration, and sustainability committees.

These structures can strengthen accountability, but they can also distance decision-makers from the consequences of their actions. Shareholders may seek returns, executives may pursue incentives, and employees may follow narrow targets. Responsibility can become fragmented when each participant claims that another person made the decision.

Unincorporated Organizations

Unincorporated organizations include sole proprietorships, many partnerships, and certain associations. The owner of a sole proprietorship usually controls the business directly and may be personally liable for its obligations. Partners may share control, profit, duties, and liability according to law and their partnership agreement.

Direct ownership can create strong personal accountability and rapid decision-making. Customers and employees may know the owner and obtain immediate responses. However, small businesses may lack independent oversight, formal policies, legal expertise, and resources for compliance or data security.

Informality can become an ethical risk when important decisions depend on personal relationships rather than transparent standards. Family members may receive opportunities unavailable to other employees. Financial and personal transactions may be mixed. Complaints may have no independent channel when the owner is involved.

Legal Form and Ethical Responsibility

Limited liability protects investment and supports economic activity, but it should not be interpreted as limited moral responsibility. An incorporated organization may impose costs on employees, consumers, suppliers, or communities even when shareholders are legally insulated from company debts. (Carroll, 1991)

Similarly, personal liability does not guarantee ethical conduct in an unincorporated business. An owner may still mislead customers, underpay workers, conceal income, misuse information, or ignore safety. Ethical performance depends on behavior and governance, not the label attached to the business.

The appropriate controls should reflect the scale and risk of operations. A small consultancy may not require the committee structure of a public corporation, but it still needs accurate records, conflicts procedures, privacy safeguards, fair contracts, and a method for addressing complaints.

Corporate Governance and Agency Problems

In corporations, ownership and control are frequently separated. Shareholders delegate decision-making to directors and executives. This creates an agency problem because managers may pursue personal interests, short-term incentives, or empire building rather than the long-term interests of the organization and its stakeholders.

Governance mechanisms include independent directors, transparent remuneration, internal controls, external audit, risk oversight, shareholder rights, and disclosure. These mechanisms are effective only when participants exercise independent judgment. Formal independence is insufficient when directors lack information or are unwilling to challenge management. (Organisation for Economic Co-operation and Development, 2023b)

Ethical governance should also examine incentives. Aggressive sales targets may encourage misrepresentation. Bonuses tied only to profit may reward cost cutting that damages safety or service

quality. Balanced performance measures can reduce pressure to sacrifice long-term value for immediate results.

Owner Control and Partnership Duties

Sole proprietors can act quickly, but concentrated authority creates few internal checks. The owner should establish procedures for financial approval, complaints, record keeping, and conflicts even when the law does not require a board.

Partnerships require trust and clear duties. Partners may owe obligations of good faith, disclosure, loyalty, and proper use of partnership property. Ethical problems arise when a partner diverts opportunities, conceals transactions, favors personal clients, or exposes the firm to undisclosed risk.

A written partnership agreement should address authority, profit distribution, decision-making, admission and departure of partners, conflicts, confidentiality, dispute resolution, and succession. Clarity protects both relationships and stakeholders.

Financial Reporting and Tax Ethics

Accurate accounting is central to ethical business because owners, lenders, employees, tax authorities, and investors rely on financial information. Manipulating revenue, delaying expenses, hiding liabilities, mixing personal and business funds, or creating false documents undermines trust and may violate law.

In incorporated organizations, management prepares financial statements while boards, audit committees, accountants, and auditors may provide oversight. Professional accountants are expected to demonstrate integrity, objectivity, competence, confidentiality, and professional behavior. (International Ethics Standards Board for Accountants, 2024)

Small unincorporated businesses may use simpler records, but simplicity does not justify inaccuracy. Owners should separate accounts, preserve invoices, reconcile cash, document expenses, and obtain professional advice when necessary. The foundations are discussed in [basic accounting concepts for business owners](#).

Tax planning becomes unethical when arrangements rely on deception, artificial transactions, or concealment. Even lawful avoidance strategies can create reputational concerns when they contradict the organization's public claims about social responsibility.

Employees and Fair Work

Ethical employers provide safe conditions, lawful pay, reasonable expectations, fair selection, respect, and protection from discrimination, harassment, and retaliation. The duty applies regardless of legal form.

Large companies may have human-resource departments and formal procedures, but bureaucracy can make employees feel unheard. Small businesses may offer personal flexibility while lacking consistent standards. Both require transparent decisions and a genuine way to raise concerns.

Worker classification is a recurring issue. Labeling workers as independent contractors to avoid obligations can transfer risk unfairly when the business controls their work in practice. Ethical analysis should consider economic dependency and actual conditions, not only contract wording.

Customers and Responsible Marketing

Businesses should provide accurate information about price, quality, risk, limitations, and terms. Deceptive marketing exploits information asymmetry and can harm vulnerable consumers. Fine print should not contradict the main impression of an advertisement.

Product safety and service quality require systems for testing, complaints, recalls, and corrective action. A business should not hide a known defect merely because disclosure may reduce profit. Small organizations should establish clear refund and complaint procedures, while larger organizations should prevent customers from being lost between departments.

Digital marketing raises additional concerns involving behavioral targeting, dark patterns, children, influencer disclosure, and personal data. Consent should not be obtained through confusing design.

Privacy Cybersecurity and Artificial Intelligence

Organizations collect employee, customer, supplier, and financial data. Ethical data management requires purpose limitation, minimization, security, retention controls, transparency, and appropriate access. Small businesses are not exempt from harm merely because they possess fewer records.

Artificial intelligence can support analysis and service delivery, but it may reproduce bias, expose confidential information, or create inaccurate outputs. Businesses should assess data sources, affected groups, human oversight, and error consequences. Relevant governance issues are examined in [cyber law case studies on privacy intellectual property and workplace ethics](#).

Suppliers and Responsible Purchasing

Ethical responsibility extends into the supply chain. Purchasing decisions can influence labor conditions, environmental harm, corruption, and human rights. Organizations should assess high-risk suppliers, define standards, investigate credible concerns, and support improvement. (United Nations, 2011)

Large corporations may impose demanding codes on small suppliers while using purchasing practices that make compliance impossible. Late changes, unrealistic prices, and delayed payment can transfer pressure down the supply chain. Responsible procurement aligns commercial terms with ethical expectations. (Organisation for Economic Co-operation and Development, 2023a)

Small firms should also examine where products come from and avoid assuming that a distributor has resolved every risk.

Environmental Responsibility

Businesses use energy, materials, water, transportation, and land. Legal permits establish minimum requirements, but ethical responsibility includes preventing avoidable harm and honestly reporting environmental performance.

Greenwashing occurs when marketing exaggerates environmental benefits or uses vague claims without evidence. Organizations should use measurable targets, credible boundaries, consistent methods, and transparent disclosure of limitations.

Environmental decisions should consider communities that bear pollution or resource costs. Consultation is particularly important when operations affect health, livelihoods, or cultural resources.

Conflicts of Interest and Corruption

A conflict of interest exists when personal interests could improperly influence professional judgment. Examples include undisclosed family suppliers, gifts, outside employment, personal investments, and use of confidential opportunities.

Conflicts are not always misconduct, but they must be disclosed and managed. Possible responses include recusal, independent approval, competitive procurement, or ending the conflicting relationship.

Anti-bribery controls should address gifts, hospitality, agents, political contributions, charitable donations, and facilitation payments. Small businesses may be vulnerable when a single owner manages both sales and payments. Larger companies face risks through intermediaries and complex

jurisdictions.

Codes of Ethics and Speak Up Systems

A code of ethics should explain expected conduct in practical terms. Topics may include honesty, conflicts, confidentiality, discrimination, safety, customer treatment, data, suppliers, environmental responsibility, and reporting.

A code is ineffective without leadership, training, investigation, and consistent consequences. Employees must have safe channels for raising concerns. Small organizations can use an external adviser or reporting service when internal independence is impossible.

Retaliation undermines every ethics program. Organizations should monitor employment decisions affecting people who report concerns and explain the limits of confidentiality.

Ethical Decision Making Framework

A practical process includes the following steps:

1. Define the decision and verify the facts.
2. Identify legal, contractual, and professional duties.
3. Identify affected stakeholders, including those with limited power.
4. Develop realistic options rather than a false choice.
5. Assess benefits, harms, rights, fairness, and long-term trust.
6. Identify conflicts of interest and seek independent challenge.
7. Document the decision and responsible owner.
8. Communicate honestly and monitor outcomes.

The framework should be proportionate. Routine decisions require less documentation than high-impact decisions involving safety, employment, privacy, or community harm.

Conclusion

Incorporated and unincorporated organizations differ in ownership, liability, governance, and access to resources. Corporations may benefit from formal oversight but face agency problems and diffusion of responsibility. Sole proprietorships and partnerships provide direct control but may lack independent challenge and structured compliance.

Neither form is inherently ethical. Ethical performance depends on how the organization treats stakeholders, reports finances, manages employees, protects consumers and data, controls conflicts, and responds to harm. Businesses should design ethical systems according to their risks and impacts

rather than treating legal compliance as the final measure of responsibility.

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