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# Chapter 1

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## What Is Business Ethics?

### Chapter Overview

Chapter 1 "What Is Business Ethics?" defines business ethics and sketches how debates within the field happen. The history of the discipline is also considered, along with the overlap between business and personal ethics.

## 1.1 What Is Business Ethics?

### LEARNING OBJECTIVES

1. Define the components of business ethics.
2. Outline how business ethics works.

### Captive Customers

Ann Marie Wagoner studies at the University of Alabama (UA). She pays \$1,200 a year for books, which is exasperating, but what really ticks her off is the text for her composition class. Called *A Writer's Reference (Custom Publication for the University of Alabama)*, it's the same *Writer's Reference* sold everywhere else, with slight modifications: there are thirty-two extra pages describing the school's particular writing program, the Alabama A is emblazoned on the front cover, there's an extra \$6 on the price tag (compared with the price of the standard version when purchased new), and there's an added sentence on the back: "This book may not be bought or sold used." The modifications are a collective budget wrecker. Because she's forced to buy a new copy of the customized Alabama text, she ends up paying about twice what she'd pay for a used copy of the standard, not-customized book that's available at Chegg.com and similar used-book dealers.

For the extra money, Wagoner doesn't get much—a few additional text pages and a school spirit cover. Worse, those extra pages are posted free on the English department's website, so the cover's the only unambiguous benefit. Even there, though, it'd be cheaper to just buy a UA bumper sticker and paste it across the front. It's hard to see, finally, any good reason for the University of Alabama English Department to snare its own students with a textbook costing so much.

Things clear up when you look closely at the six-dollar difference between the standard new book cost and the customized UA version. Only half that money stays with the publisher to cover specialized printing costs. The other part kicks back to the university's writing program, the one requiring the book in the first place. It turns out there's a quiet moneymaking scheme at work here: the English department gets some straight revenue, and most students, busy with their lives, don't notice the royalty details. They get their books, roll their eyes at the cash register, and get on with things.

Wagoner noticed, though. According to an extensive article in the *Wall Street Journal*, she calls the cost of new custom books “ridiculous.” She’s also more than a little suspicious about why students aren’t more openly informed about the royalty arrangement: “They’re hiding it so there isn’t a huge uproar.” John Hechinger, “As Textbooks Go ‘Custom,’ Students Pay: Colleges Receive Royalties for School-Specific Editions; Barrier to Secondhand Sales,” *Wall Street Journal*, July 10, 2008, accessed May 11, 2011, <http://online.wsj.com/article/SB121565135185141235.html>.

While it may be true that the Tuscaloosa university is hiding what’s going on, they’re definitely not doing a very good job since the story ended up splattered across the *Wall Street Journal*. One reason the story reached one of the United States’ largest circulation dailies is that a lot of universities are starting to get in on the cash. Printing textbooks within the kickback model is, according to the article, the fastest growing slice of the \$3.5 billion college textbook market.

The money’s there, but not everyone is eager to grab it. James Koch, an economist and former president of Old Dominion University and the University of Montana, advises schools to think carefully before tapping into customized-textbook dollars because, he says, the whole idea “treads right on the edge of what I would call unethical behavior. I’m not sure it passes the smell test.” John Hechinger, “As Textbooks Go ‘Custom,’ Students Pay: Colleges Receive Royalties for School-Specific Editions; Barrier to Secondhand Sales,” *Wall Street Journal*, July 10, 2008, accessed May 11, 2011, <http://online.wsj.com/article/SB121565135185141235.html>.

## What Is Business Ethics?

What does it mean to say a business practice doesn’t “pass the smell test”? And what would happen if someone read the article and said, “Well, to me it smells all right”? If no substance fills out the idea, if there’s no elaboration, then there probably wouldn’t be much more to say. The two would agree to disagree and move on. Normally, that’s OK; no one has time to debate everything. But if you want to get involved—if you’re like Wagoner who sounds angry about what’s going on and maybe wants to change it—you’ll need to do more than make comments about how things hit the nose.

Doing **business ethics**<sup>1</sup> means providing reasons for how things ought to be in the economic world. This requires the following:

1. Providing reasons for how things ought to be in the economic world.
2. In business ethics, the priorities selected to guide decisions.

- **Arranging values**<sup>2</sup> to guide decisions. There needs to be a clearly defined and well-justified set of priorities about what’s worth seeking and protecting and what other things we’re willing to compromise or give up. For example, what’s more important and valuable: consumers

(in this case students paying for an education) getting their books cheaply or protecting the right of the university to run the business side of its operation as it sees fit?

- **Understanding the facts**<sup>3</sup>. To effectively apply a set of values to any situation, the situation itself must be carefully defined. Who, for example, is involved in the textbook conflict? Students, clearly, as well as university administrators. What about parents who frequently subsidize their college children? Are they participants or just spectators? What about those childless men and women in Alabama whose taxes go to the university? Are *they* involved? And how much money are we talking about? Where does it go? Why? How and when did all this get started?
- **Constructing arguments**<sup>4</sup>. This shows how, given the facts, one action serves our values better than other actions. While the complexities of real life frequently disallow absolute proofs, there remains an absolute requirement of comprehensible reasoning. Arguments need to make sense to outside observers. In simple, practical terms, the test of an ethical argument resembles the test of a recipe for a cook: others need to be able to follow it and come to the same result. There may remain disagreements about facts and values at the end of an argument in ethics, but others need to understand the reasoning marking each step taken on the way to your conclusion.

Finally, the last word in ethics is a determination about right and wrong. This actual result, however, is secondary to the process: the verdict is only the remainder of forming and debating arguments. That's why doing ethics isn't brainwashing. Conclusions are only taken seriously if composed from clear values, recognized facts, and solid arguments.

### Bringing Ethics to Kickback Textbooks

The *Wall Street Journal* article on textbooks and kickbacks to the university is a mix of facts, values, and arguments. They can be sorted out; an opportunity to do the sorting is provided by one of the article's more direct assertions:

Royalty arrangements involving specially made books may violate colleges' conflict-of-interest rules because they appear to benefit universities more than students.

A conflict of interest occurs when a university pledges to serve the interest of students but finds that *its own* interest is served by not doing that. It doesn't sound like this is a good thing (in the language of the article, it smells bad). But to reach

3. In business ethics, the people and things involved in a decision.

4. In business ethics, showing how, given the facts, one action serves specific values better than other actions.

that conclusion in ethical terms, the specific values, facts, and arguments surrounding this conflict need to be defined.

Start with the values. The priorities and convictions underneath the conflict-of-interest accusation are clear. When a university takes tuition money from a student and promises to do the best job possible in providing an education to the student, then it better *do* that. The truth matters. When you make a promise, you've got to fulfill it. Now, this fundamental value is what makes a conflict of interest worrisome. If we didn't care about the truth at all, then a university promising one thing and doing something else wouldn't seem objectionable. In the world of poker, for example, when a player makes a grand show of holding a strong hand by betting a pile of chips, no one calls him a liar when it's later revealed that the hand was weak. The truth isn't expected in poker, and bluffing is perfectly acceptable. Universities aren't poker tables, though. Many students come to school expecting honesty from their institution and fidelity to agreements. To the extent these values are applied, a conflict of interest becomes both possible and objectionable.

With the core value of honesty established, what are the facts? The "who's involved?" question brings in the students buying the textbooks, the company making the textbooks (Bedford/St. Martin's in Boston), and the University of Alabama. As drawn from the UA web page, here's the school's purpose, the reason it exists in the first place: "The University of Alabama is a student-centered research university and an academic community united in its commitment to enhancing the quality of life for all Alabamians."

Moving to the financial side, specific dollar amounts should be listed (the textbook's cost, the cost for the noncustomized version). Also, it may be important to note the financial context of those involved: in the case of the students, some are comfortably wealthy or have parents paying for everything, while others live closer to their bank account's edge and are working their way through school.

Finally, the actual book-selling operation should be clearly described. In essence, what's going on is that the UA English Department is making a deal with the Bedford/St. Martin's textbook company. The university proposes, "If you give us a cut of the money you make selling textbooks, we'll let you make more money off our students." Because the textbooks are customized, the price goes up while the supply of cheap used copies (that usually can be purchased through the Internet from stores across the nation) goes way down. It's much harder for UA students to find used copies, forcing many to buy a new version. This is a huge windfall for Bedford/St. Martin's because, for them, every time a textbook is resold used, they lose a sale. On the other side, students end up shelling out the maximum money for each book because they have to buy new instead of just recycling someone else's

from the previous year. Finally, at the end of the line there is the enabler of this operation, the English department that both requires the book for a class and has the book customized to reduce used-copy sales. They get a small percentage of Bedford/St. Martin's extra revenue.

With values and facts established, an argument against kickback textbooks at Alabama can be drawn up. By customizing texts and making them mandatory, UA is forcing students to pay extra money to take a class: they have to spend about thirty dollars extra, which is the difference between the cost of a new, customized textbook and the standard version purchased used. Students generally don't have a lot of money, and while some pass through school on the parental scholarship, others scrape by and have to work a McJob to make ends meet. So for at least some students, that thirty dollars directly equals time that could be spent studying, but that instead goes to flipping burgers. The customized textbooks, consequently, hurt these students' academic learning in a measurable way. Against that reality there's the university's own claim to be a "student-centered" institution. Those words appear untrue, however, if the university is dragging its own students out of the library and forcing them to work extra hours. To comply with its own stated ideals—to serve the *students'* interests—UA should suspend the kickback textbook practice. It's important to do that, finally, because fulfilling promises is valuable; it's something worth doing.

### Argument and Counterargument

The conclusion that kickback textbooks turn universities into liars doesn't end debate on the question. In fact, because well developed ethical positions expose their reasoning so openly (as opposed to "it doesn't smell right"), they tend to invite responses. One characteristic, in other words, of good ethical arguments is that, paradoxically but not contradictorily, they tend to provoke counterarguments.

Broadly, there are three ways to dispute an argument in ethics. You can attack the

1. facts,
2. values,
3. reasoning.

In the textbook case, disputing the facts might involve showing that students who need to work a few extra hours to afford their books *don't* subtract that time from their studying; actually, they subtract it from late-night hours pounding beers in dank campus bars. The academic damage done, therefore, by kickback textbooks is zero. Pressing this further, if it's true that increased textbook prices translate into

less student partying, the case could probably be made that the university actually serves students' interests—at least those who drink too much beer—by jacking up the prices.

The values supporting an argument about kickback textbooks may, like the facts, be disputed. Virginia Tech, for example, runs a text-customization program like Alabama's. According to Tech's English Department chair Carolyn Rude, the customized books published by Pearson net the department about \$20,000 a year. Some of that cash goes to pay for instructors' travel stipends. These aren't luxury retreats to Las Vegas or Miami; they're gatherings of earnest professors in dull places for discussions that reliably put a few listeners to sleep. When instructors—who are frequently graduate students—attend, they're looking to burnish their curriculum vitae and get some public responses to their work. Possibly, the trip will help them get a better academic job later on. Regardless, it won't do much for the undergraduates at Virginia Tech. In essence, the undergrads are being asked to pay a bit extra for books to help graduate students hone their ideas and advance professionally.

Can that tradeoff be justified? With the right values, yes. It must be conceded that Virginia Tech is probably rupturing a commitment to serve the undergrads' interest. Therefore, it's true that a certain amount of dishonesty shadows the process of inflating textbook costs. If, however, there's a higher value than truth, that won't matter so much. Take this possibility: what's right and wrong isn't determined by honesty and fidelity to commitments, but the general welfare. The argument here is that while it's true that undergrads suffer a bit because they pay extra, the instructors receiving the travel stipends benefit a lot. Their knowledge grows, their career prospects improve, and in sum, they benefit so much that it entirely outweighs the harm done to the undergrads. As long as this value—the greatest total good—frames the assessment of kickback textbooks, the way is clear for Tech or Alabama to continue the practice. It's even recommendable.

The final ground on which an ethical argument can be refuted is the reasoning. Here, the facts are accepted, as well as the value that universities are duty bound to serve the interests of the tuition-paying undergraduate students since that's the commitment they make on their web pages. What can still be debated, however, is the extent to which those students may actually *be* benefitted by customizing textbooks. Looking at the *Wall Street Journal* article, several partially developed arguments are presented on this front. For example, at Alabama, part of the money collected from the customized texts underwrites teaching awards, and that, presumably, motivates instructors to perform better in the classroom, which ends up serving the students' educational interests. Similarly, at Virginia Tech, part of the revenue is apportioned to bring in guest speakers, which should advance the undergraduate educational cause. The broader argument is that while it's true that

the students are paying more for their books than peers at other universities, the sequence of reasoning doesn't necessarily lead from that fact to the conclusion that there's a reproachable conflict of interest. It can also reach the verdict that students' educational experience is improved; instead of a conflict of interest, there's an elevated commitment to student welfare inherent in the kickback practice.

Conclusion. There's no irrefutable answer to the question about whether universities ought to get involved in kickback textbooks. What is clear, however, is that there's a difference between responding to them by asserting that something doesn't smell right, and responding by uniting facts, values, and reasoning to produce a substantial ethical argument.

### KEY TAKEAWAYS

- Business ethics deals with values, facts, and arguments.
- Well-reasoned arguments, by reason of their clarity, invite counterarguments.

### REVIEW QUESTIONS

1. What is the difference between brainwashing and an argument?
2. What does it mean to dispute an argument on the basis of the facts?
3. What does it mean to dispute an argument on the basis of the values?
4. What does it mean to dispute an argument on the basis of the reasoning?

## 1.2 The Place of Business Ethics

### LEARNING OBJECTIVES

1. Distinguish the place of business ethics within the larger field of decision making.
2. Sketch the historical development of business ethics as a coherent discipline.

### The Boundaries and History of Business Ethics

Though both economic life and ethics are as old as history, business ethics as a formal area of study is relatively new. Delineating the specific place of today's business ethics involves

- distinguishing morality, ethics, and metaethics;
- dividing normative from descriptive ethics;
- comparing ethics against other forms of decision making;
- sketching some inflection points in the histories of ethics and business ethics.

### Morality, Ethics, and Metaethics: What's the Difference?

The back and forth of debates about kickback textbooks occurs on one of the three distinct levels of consideration about right and wrong. **Morals**<sup>5</sup> occupy the lowest level; they're the direct rules we ought to follow. Two of the most common moral dictates are *don't lie* and *don't steal*. Generally, the question to ask about a moral directive is whether it was obeyed. Specifically in the case of university textbooks, the debate about *whether* customized textbooks are a good idea isn't morality. It's not because morality doesn't involve debates. Morality only involves specific guidelines that should be followed; it only begins when someone walks into a school bookstore, locates a book needed for a class, strips out the little magnetic tag hidden in the spine, and heads for the exit.

Above all morality there's the broader question about exactly what specific rules should be instituted and followed. Answering this question is **ethics**<sup>6</sup>. Ethics is the morality factory, the production of guidelines that later may be obeyed or violated. It's not clear today, for example, whether there should be a moral rule prohibiting kickback textbooks. There are good arguments for the prohibition (universities are

5. Direct rules we ought to follow.

6. The production of morals.

betraying their duty to serve students' interests) and good arguments against (schools are finding innovative sources of revenue that can be put to good use). For that reason, it's perfectly legitimate for someone like Ann Marie Wagoner to stand up at the University of Alabama and decry the practice as wrong. But she'd be going too far if she accused university administrators of being thieves or immoral. They're not; they're on the other side of an ethical conflict, not a moral one.

Above both morality and ethics there are debates about **metaethics**<sup>7</sup>. These are the most abstract and theoretical discussions surrounding right and wrong. The questions asked on this level include the following: Where do ethics come from? Why do we have ethical and moral categories in the first place? To whom do the rules apply? Babies, for example, steal from each other all the time and no one accuses them of being immoral or insufficiently ethical. Why is that? Or putting the same question in the longer terms of human history, at some point somewhere in the past someone must have had a lightbulb turn on in their mind and asked, "Wait, is stealing wrong?" How and why, those interested in metaethics ask, did that happen? Some believe that morality is transcendent in nature—that the rules of right and wrong come from beyond you and me and that our only job is to receive, learn, and obey them. Divine command theory, for example, understands earthly morality as a reflection of God. Others postulate that ethics is very human and social in nature—that it's something we invented to help us live together in communities. Others believe there's something deeply personal in it. When I look at another individual I see in the depth of their difference from myself a requirement to respect that other person and his or her uniqueness, and from there, ethics and morality unwind. These kinds of metaethical questions, finally, are customarily studied in philosophy departments.

Conclusion. Morality is the rules, ethics is the making of rules, and metaethics concerns the origin of the entire discussion. In common conversation, the words *morality* and *ethics* often overlap. It's hard to change the way people talk and, in a practical field like business ethics, fostering the skill of debating arguments is more important than being a stickler for words, but it's always possible to keep in mind that, strictly speaking, morality and ethics hold distinct meanings.

### What's the Difference between Normative Ethics and Descriptive Ethics?

- 7. The study of the origin and rules of ethics and morality.
- 8. The discussion about what ought to be done.
- 9. The study of what people actually do and why.

Business ethics is **normative**<sup>8</sup>, which means it concerns how people *ought* to act. **Descriptive ethics**<sup>9</sup> depicts how people *are* acting.

At the University of Alabama, Virginia Tech, and anywhere kickback textbooks are being sold, there are probably a few students who check their bank accounts, find

that the number is low, and decide to mount their own kickback scheme: refund the entire textbook cost to themselves by sneaking a copy out of the store. Trying to make a decision about whether that's justified—*does economic necessity license theft in some cases?*—is normative ethics. By contrast, investigating to determine the exact number of students walking out with free books is descriptive. So too is tallying the reasons for the theft: How many steal because they don't have the money to pay? How many accuse the university of acting dishonestly in the first place and say that licenses theft? How many question the entire idea of private property?

The fields of descriptive ethics are many and varied. Historians trace the way penalties imposed for theft have changed over time. Anthropologists look at the way different cultures respond to thievery. Sociologists study the way publications, including Abbie Hoffman's incendiary book titled *Steal This Book*, have changed public attitudes about the ethics of theft. Psychologists are curious about the subconscious forces motivating criminals. Economists ask whether there's a correlation between individual wealth and the kind of moral rules subscribed to. None of this depends on the question about whether stealing may actually *be* justifiable, but all of it depends on stealing actually happening.

### **Ethics versus Other Forms of Decision**

When students stand in the bookstore flipping through the pages of a budget buster, it's going to cross a few minds to stick it in the backpack and do a runner. Should they? Clear-headed ethical reflection may provide an answer to the question, but that's not the only way we make decisions in the world. Even in the face of screaming ethical issues, it's perfectly possible and frequently reasonable to make choices based on other factors. They include:

- The law
- Prudence (practicality)
- Religion
- Authority figures
- Peer pressure
- Custom
- Conscience

When the temptation is there, one way to decide whether to steal a book is legal: if the law says I can't, I won't. Frequently, legal prohibitions overlap with commonly accepted moral rules: few legislators want to sponsor laws that most believe to be unjust. Still, there *are* unjust laws. Think of downloading a text (or music, or a video) from the web. One day the downloading may be perfectly legal and the next, after a bill is passed by a legislature, it's illegal. So the law reverses, but there's no

reason to think the ethics—the values and arguments guiding decisions about downloading—changed in that short time. If the ethics didn't change, at least one of the two laws *must* be ethically wrong. That means any necessary connection between ethics and the law is broken. Even so, there are clear advantages to making decisions based on the law. Besides the obvious one that it'll keep you out of jail, legal rules are frequently cleaner and more direct than ethical determinations, and that clarity may provide justification for approving (or disapproving) actions with legal dictates instead of ethical ones. The reality remains, however, that the two ways of deciding are as distinct as their mechanisms of determination. The law results from the votes of legislators, the interpretations of judges, and the understanding of a policeman on the scene. Ethical conclusions result from applied values and arguments.

Religion may also provide a solution to the question about textbook theft. The Ten Commandments, for example, provide clear guidance. Like the law, most mainstream religious dictates overlap with generally accepted ethical views, but that doesn't change the fact that the rules of religion trace back to beliefs and faith, while ethics goes back to arguments.

Prudence, in the sense of practical concern for your own well-being, may also weigh in and finally guide a decision. With respect to stealing, regardless of what you may believe about ethics or law or religion, the possibility of going to jail strongly motivates most people to pay for what they carry out of stores. If that's the motivation determining what's done, then personal comfort and welfare are guiding the decision more than sweeping ethical arguments.

Authority figures may be relied on to make decisions: instead of asking whether it's right to steal a book, someone may ask themselves, "What would my parents say I should do? Or the soccer coach? Or a movie star? Or the president?" While it's not clear how great the overlap is between decisions based on authority and those coming from ethics, it is certain that following authority implies respecting the experience and judgment of others, while depending on ethics means relying on your own careful thinking and determinations.

Urges to conformity and peer pressure also guide decisions. As depicted by the startling and funny Asch experiments (see Video Clip 1.1), most of us palpably fear being labeled a deviant or just differing from those around us. So powerful is the attraction of conformity that we'll deny things clearly seen with our own eyes before being forced to stand out as distinct from everyone else.

## Video Clip

*Asch Experiments*

[\(click to see video\)](#)

Custom, tradition, and habit all also guide decisions. If you're standing in the bookstore and you've never stolen a thing in your life, the possibility of appropriating the text may not even occur to you or, if it does, may seem prohibitively strange. The great advantage of custom or tradition or just doing what we've always done is that it lets us take action without thinking. Without that ability for thoughtlessness, we'd be paralyzed. No one would make it out of the house in the morning: the entire day would be spent wondering about the meaning of life and so on. Habits—and the decisions flowing from them—allow us to get on with things. Ethical decisions, by contrast, tend to slow us down. In exchange, we receive the assurance that we actually believe in what we're doing, but in practical terms, no one's decisions can be ethically justified all the time.

Finally, the conscience may tilt decisions in one direction or another. This is the gut feeling we have about whether swiping the textbook is the way to go, coupled with the expectation that the wrong decision will leave us remorseful, suffering palpable regret about choosing to do what we did. Conscience, fundamentally, is a feeling; it starts as an intuition and ends as a tugging, almost sickening sensation in the stomach. As opposed to those private sensations, ethics starts from facts and ends with a reasoned argument that can be publicly displayed and compared with the arguments others present. It's not clear, even to experts who study the subject, exactly where the conscience comes from, how we develop it, and what, if any, limits it should place on our actions. Could, for example, a society come into existence where people stole all the time and the decision to *not* shoplift a textbook carries with it the pang of remorse? It's hard to know for sure. It's clear, however, that ethics is fundamentally social: it's about right and wrong as those words emerge from real debates, not inner feelings.

## History and Ethics

Conflicts, along with everything necessary to approach them ethically (mainly the ability to generate and articulate reasoned thoughts), are as old as the first time someone was tempted to take something from another. For that reason, there's no strict historical advance to the study: there's no reason to confidently assert that the way we do ethics today is superior to the way we did it in the past. In that way, ethics isn't like the physical sciences where we can at least suspect that knowledge of the world yields technology allowing more understanding, which would've been impossible to attain earlier on. There appears to be, in other words, marching

progress in science. Ethics doesn't have that. Still, a number of critical historical moments in ethics' history can be spotted.

In ancient Greece, Plato presented the theory that we could attain a general knowledge of justice that would allow a clear resolution to every specific ethical dilemma. He meant something like this: Most of us know what a chair is, but it's hard to pin down. Is something a chair if it has four legs? No, beds have four legs and some chairs (barstools) have only three. Is it a chair if you sit on it? No, that would make the porch steps in front of a house a chair. Nonetheless, because we have the general idea of a chair in our mind, we can enter just about any room in any home and know immediately where we should sit. What Plato proposed is that justice works like that. We have—or at least we can work toward getting—a general idea of right and wrong, and when we have the idea, we can walk into a concrete situation and correctly judge what the right course of action is.

Moving this over to the case of Ann Marie Wagoner, the University of Alabama student who's outraged by her university's kickback textbooks, she may feel tempted, standing there in the bookstore, to make off with a copy. The answer to the question of whether she *ought* to do that will be answered by the general sense of justice she's been able to develop and clarify in her mind.

In the seventeenth and eighteenth centuries, a distinct idea of fundamental ethics took hold: natural rights. The proposal here is that individuals are naturally and undeniably endowed with rights to their own lives, their freedom, and to pursue happiness as they see fit. As opposed to the notion that certain acts are firmly right or wrong, proponents of this theory—including John Locke and framers of the new American nation—proposed that individuals may sort things out as they please *as long as* their decisions and actions don't interfere with the right of others to do the same. Frequently understood as a theory of freedom maximization, the proposition is that your freedom is only limited by the freedoms others possess.

For Wagoner, this way of understanding right and wrong provides little immediate hope for changing textbook practices at the University of Alabama. It's difficult to see how the university's decision to assign a certain book at a certain price interferes with Wagoner's freedom. She can always choose to not purchase the book, to buy one of the standard versions at Amazon, or to drop the class. What she probably *can't* justify choosing, within this theory, is responding to the kickback textbooks by stealing a copy. Were she to do that, it would violate *another's* freedom, in this case, the right of the university (in agreement with a publisher) to offer a product for sale at a price they determine.

A third important historical direction in the history of ethics originated with the proposal that what you do doesn't matter so much as the *effects* of what you do. Right and wrong are found in the consequences following an action, not in the action itself. In the 1800s John Stuart Mill and others advocated the idea that *any* act benefitting the general welfare was recommendable and ethically respectable. Correspondingly, any act harming a community's general happiness should be avoided. Decisions about *good* or *bad*, that means, don't focus on what happens now but what comes later, and they're not about the one person making the decision but the consequences as they envelop a larger community.

For someone like Wagoner who's angry about the kickback money hidden in her book costs, this consequence-centered theory opens the door to a dramatic action. She may decide to steal a book from the bookstore and, after alerting a reporter from the student newspaper of her plan, promptly turn herself into the authorities as a form of protest. "I stole this book," she could say, "but that's nothing compared with the theft happening every day on this campus by our university." This plan of action may work out—or maybe not. But in terms of ethics, the focus should be on the theft's results, not the fact that she sneaked a book past security. The ethical verdict here is not about whether robbery is right or wrong but whether the protest stunt will ultimately improve university life. If it does, we can say that the original theft was good.

Finally, ethics is like most fields of study in that it has been accompanied from the beginning by skeptics, by people suspecting that either there is no real right and wrong or, even if there is, we'll never have much luck figuring out the difference. The twentieth century has been influenced by Friedrich Nietzsche's affirmation that moral codes (and everything else, actually) are just interpretations of reality that may be accepted now, but there's no guarantee things will remain that way tomorrow. Is stealing a textbook right or wrong? According to this view, the answer always is, "It depends." It depends on the circumstances, on the people involved and how well they can convince others to accept one or another verdict. In practical terms, this view translates into a theory of cultural or contextual relativism. What's right and wrong only reflects what a particular person or community decides to believe at a certain moment, and little more.

### **The Historical Development of Business Ethics**

The long philosophical tradition of ethical thought contains the subfield of business ethics. Business ethics, in turn, divides between ethics practiced by people who happen to be in business and business ethics as a coherent and well-defined academic pursuit.

People in business, like everyone else, have ethical dimensions to their lives. For example, the company W. R. Grace was portrayed in the John Travolta movie *A Civil Action* as a model of bad corporate behavior. Steven Zaillian (director), *A Civil Action* (New York: Scott Rudin, 1998), film. What not so many people know, however, is that the corporation's founder, the man named W. R. Grace, came to America in the nineteenth century, found success, and dedicated a significant percentage of his profits to a free school for immigrants that still operates today.

Even though questions stretch deep into the past about what responsibilities companies and their leaders may have besides generating profits, the academic world began seriously concentrating on the subject only very recently. The first full-scale professional conference on academic business ethics occurred in 1974 at the University of Kansas. A textbook was derived from the meeting, and courses began appearing soon after at some schools.

By 1980 some form of a unified business ethics course was offered at many of the nation's colleges and universities.

Academic discussion of ethical issues in business was fostered by the appearance of several specialized journals, and by the mid-1990s, the field had reached maturity. University classes were widespread, allowing new people to enter the study easily. A core set of ideas, approaches, and debates had been established as central to the subject, and professional societies and publications allowed for advanced research in and intellectual growth of the field.

The development of business ethics inside universities corresponded with increasing public awareness of problems associated with modern economic activity, especially on environmental and financial fronts. In the late 1970s, the calamity in the Love Canal neighborhood of Niagara Falls, New York, focused international attention on questions about a company's responsibility to those living in the surrounding community and to the health of the natural world. The Love Canal's infamy began when a chemical company dumped tons of toxic waste into the ground before moving away. Despite the company's warnings about the land's toxicity, residential development spread over the area. Birth defects and similar maladies eventually devastated the families. Not long afterward and on the financial front, an insider trading scandal involving the Wall Street titan Ivan Boesky made front pages, which led John Shad, former head of the Securities and Exchange Commission, to donate \$20 million to his business school alma mater for the purpose of ethics education. Parallel (though usually more modest) money infusions went to university philosophy departments. As a discipline, business ethics naturally bridges the two divisions of study since the theory and tools for

resolving ethical problems come from philosophy, but the problems for solving belong to the real economic world.

Today, the most glamorous issues of business ethics involve massively powerful corporations and swashbuckling financiers. Power and celebrity get people's attention. Other, more tangible issues don't appear in so many headlines, but they're just as important to study since they directly reach so many of us: What kind of career is worth pursuing? Should I lie on my résumé? How important is money?

## **The Personal History of Ethics**

Moving from academics to individual people, almost every adult does business ethics. Every time people shake their exhausted heads in the morning, eye the clock, and decide whether they'll go to work or just pull up the covers, they're making a decision about what values guide their economic reality. The way ethics is done, however, changes from person to person and for all of us through our lives. There's no single history of ethics as individuals live it, but there's a broad consensus that for many people, the development of their ethical side progresses in a way not too far off from a general scheme proposed by the psychologist Lawrence Kohlberg.

Preconventional behavior—displayed by children, but not only by them—is about people calculating to get what they want efficiently: decisions are made in accordance with raw self-interest. That's why many children really do behave better near the end of December. It's not that they've suddenly been struck by respect for others and the importance of social rules; they just figure they'll get more and better presents.

Moving up through the conventional stages, the idea of what you'll do separates from what you want. First, there are immediate conventions that may pull against personal desires; they include standards and pressures applied by family and friends. Next, more abstract conventions—the law and mass social customs—assert influence.

Continuing upward, the critical stages of moral development go from recognizing abstract conventions to actively and effectively comparing them. The study of business ethics belongs on this high level of individual maturity. Value systems are held up side by side, and reasons are erected for selecting one over another. This is the ethics of full adulthood; it requires good reasoning and experience in the real world.

Coextensive with the development of ideas about what we ought to do are notions about responsibility—about justifiably blaming people for what they’ve done. Responsibility at the lowest level is physical. The person who stole the book is responsible because they took it. More abstractly, responsibility attaches to notions of causing others to do a wrong (enticing someone else to steal a book) and not doing something that could have prevented a wrong (not acting to dissuade another who’s considering theft is, ultimately, a way of acting). A mature assignment of responsibility is normally taken to require that the following considerations hold:

- The person is able to understand right and wrong.
- The person acts to cause—or fails to act to prevent—a wrong.
- The person acts knowing what they’re doing.
- The person acts from their own free will.

### KEY TAKEAWAYS

- Morality is the set of rules defining what ought to be done; ethics is the debate about what the rules should be; metaethics investigates the origin of the entire field.
- Normative ethics concerns what should be done, not what is done.
- Ethics is only one of a number of ways of making decisions.
- Business ethics as an academic study is a recent development in the long history of ethical reflection.
- With respect to individuals, the development of ethical thought may be studied, as well as notions of responsibility.

### REVIEW QUESTIONS

1. List two basic questions belonging to the field of morality.
2. List two basic questions belonging to the field of ethics.
3. What is one basic question belonging to the field of metaethics?
4. What is an example of normative ethics? And descriptive ethics?
5. Explain the difference between a decision based on ethics and one based on the law.
6. Explain the difference between a decision based on ethics and one based on religion.
7. List two factors explaining the recent development and growth of business ethics as a coherent discipline.

## 1.3 Is Business Ethics Necessary?

### LEARNING OBJECTIVES

1. Articulate two extreme views of business ethics.
2. Describe the sense in which business ethics is inevitable.

### Two Extreme Views of the Business World

At the boundaries of the question about whether business ethics is necessary, there are conflicting and extreme perceptions of the business world. In graphic terms, these are the views:

- Business needs policing because it's a dirty enterprise featuring people who get ahead by being selfish liars.
- Successful businesses work well to enrich society, and business ethicists are interfering and annoying scolds threatening to ruin our economic welfare.

A 1987 *New York Times* article titled “Suddenly, Business Schools Tackle Ethics” begins this way: “Insider-trading scandals in the last year have badly tarnished the reputations of some of the nation’s most prominent financial institutions. Nor has Wall Street been the only area engulfed in scandal; manufacturers of products from contraceptives to military weapons have all come under public scrutiny recently for questionable—if not actionable—behavior.” Sandra Salmans, “Suddenly, Business Schools Tackle Ethics,” *New York Times*, August 2, 1987, accessed May 11, 2011, <http://www.nytimes.com/1987/08/02/education/suddenly-business-schools-tackle-ethics.html>.

Slimy dealing verging on the illegal, the message is, stains the economic world from one end to the other. A little further into the article, the author possibly gives away her deepest feelings about business when she cracks that business ethics is “an oxymoron.”

What will business leaders—and anyone else for that matter—do when confronted with the accusation of sliminess? Possibly embrace it—an attitude facilitated by an infamous article originally published in the *Harvard Business Review*. In “Is Business Bluffing Ethical?,” the author suggests businessmen and women should double

down on the strategy of getting ahead through deceit because if you're in business, then everyone already knows you're a liar anyway. And since that's common knowledge, taking liberties with the truth doesn't even count as lying: there's no moral problem because that's just the way the business game is played. In the author's words, "Falsehood ceases to be falsehood when it is understood on all sides that the truth is not expected to be spoken—an exact description of bluffing in poker, diplomacy, and business." Albert Carr, "Is Business Bluffing Ethical?," *Harvard Business Review* 46 (January–February, 1968), 143–53.

The basic argument is strong. Ethically, dishonesty stops being reproachable—it stops being an attempt to mislead—when everyone knows that you're not telling the truth. If it weren't for that loophole, it'd be difficult to enjoy movies. Spiderman swinging through New York City skyscrapers isn't a lie, it's just fun because everyone agrees from the beginning that the truth doesn't matter on the screen.

The problem with applying this logic to the world of commerce, however, is that the original agreement isn't there. It's not true that in business everyone knows there's lying and accepts it. In poker, presumably, the players choosing to sit down at the table have familiarized themselves with the rules and techniques of the game and, yes, do expect others to fake a good hand from time to time. It's easy to show, however, that the expectation doesn't generally hold in office buildings, stores, showrooms, and sales pitches. Take, for example, a car advertisement claiming a certain model has a higher resale value, has a lower sticker price, or can go from zero to sixty faster than its competition. People in the market for a new car take those claims seriously. If they're prudent, they'll check just to make sure (an economic form of "trust but verify"), but it's pretty rare that someone sitting in front of the TV at home chuckles and calls the claim absurd. In poker, on the other hand, if another player makes a comparable claim ("I have the highest hand at the table!"), people just laugh and tell the guy to keep drinking. Poker isn't like business.

The argument that bluffing—lying—in business is acceptable because everyone does it and everyone knows everyone's doing it doesn't hold up. However, the fact that someone could seriously *make* the argument (and get it published in the *Harvard Business Review* no less) certainly provides heavy ammunition for those who believe that most high-level businesspeople—like those who read the *Harvard Business Review*—should have a hard time looking at themselves in the mirror in the morning.

Opposing the view that business life is corrupt and needs serious ethical policing, there's the view that economic enterprises provide wealth for our society while correcting their own excesses and problems internally. How does the correction

work? Through the **marketplace**<sup>10</sup>. The pressures of demanding consumers force companies into reputable behavior. If a car manufacturer lies about its product, there may be a brief uptick in sales, but eventually people will figure out what's going on, spread the word at the water cooler and on Facebook, and in the end the company's sales will collapse. Similarly, bosses that abuse and mistreat subordinates will soon find that no one wants to work for them. Workers who cheat on expense reports or pocket money from the till will eventually get caught and fired. Of course it must be admitted that some people sometimes do get away with something, but over the long run, the forces of the economic world inexorably correct abuses.

If this vision of business reality is correct, then adding another layer of academic ethics onto what's already going on in the real world isn't necessary. More, those who insist on standing outside corporate offices and factory buildings preaching the need for oversight and remedial classes in morality become annoying nags. That's especially true if the critics aren't directly doing business themselves. If they're ensconced in university towers and gloomy libraries, there may even be a suspicion that what really drives the call to ethics is a burning resentment of all the money Wall Street stars and captains of industry seem to make, along with their flashy cars, palatial homes, and luxurious vacations.

An issue of the Cato Institute's *Policy Report* from 2000 carries an article titled "Business Ethics Gone Wrong." It asserts that some proponents of business ethics aren't only bothersomely envious—their resentment-fueled scolding actually threatens our collective economic welfare. Business ethics, according to the author, "is fundamentally antagonistic to capitalist enterprise, viewing both firm and manager as social parasites in need of a strong reformatory hand." Alexei M. Marcoux, "Business Ethics Gone Wrong," *Cato Policy Report* 22, no. 3 (May/June 2000), accessed May 11, 2011, [http://www.cato.org/pubs/policy\\_report/v22n3/cpr-22n3.html](http://www.cato.org/pubs/policy_report/v22n3/cpr-22n3.html).

These reforms—burdensome regulations, prying investigations, and similar ethical interventions—threaten to gum up the capitalist engine: "If the market economy and its cornerstone, the shareholder-oriented firm, are in no danger of being dealt a decisive blow, they at least risk death by a thousand cuts." Alexei M. Marcoux, "Business Ethics Gone Wrong," *Cato Policy Report* 22, no. 3 (May/June 2000), accessed May 11, 2011, [http://www.cato.org/pubs/policy\\_report/v22n3/cpr-22n3.html](http://www.cato.org/pubs/policy_report/v22n3/cpr-22n3.html).

There's a problem with this perspective on the business world. Even if, for the sake of argument, it's acknowledged that economic forces effectively police commerce, that doesn't mean business ethics is unnecessary or a threat to the market economy. The opposite is the case: the view that the marketplace solves most

10. Understood in ethical terms, it is the enforcement of rules for behavior by economic reality.

problems is an ethics. It's a form of egoism, a theory to be developed in later chapters but with values and rules that can be rapidly sketched here. What's most valued from this perspective is our individual welfare and the freedom to pursue it without guilt or remorse. With that freedom, however, comes a responsibility to acknowledge that others may be guided by the same rules and therefore we're all bound by the responsibility to look out for ourselves and actively protect our own interests since no one will be doing it for us. This isn't to confirm that all businesspeople are despicable liars, but it does mean asserting that the collective force of self-interest produces an ethically respectable reality. Right and wrong comes to be defined by the combined force of cautious, self-interested producers and consumers.

In the face of this argument defending a free-for-all economic reality where everyone is doing the best they can for themselves while protecting against others doing the same, objections may be constructed. It could be argued, for example, that the modern world is too complex for consumers to adequately protect their own interests all the time. No matter how that issue gets resolved, however, the larger fact remains that trusting in the marketplace is a reasonable and defensible ethical posture; it's a commitment to a set of values and facts and their combination in an argument affirming that the free market works to effectively resolve its own problems.

Conclusion. It's not true that doing business equals being deceitful, so it's false to assert that business ethics is necessary to cure the ills of commerce. It is true that the business world may be left to control its own excesses through marketplace pressure, but that doesn't mean business escapes ethics.

### **Business Ethics Is Inevitable**

Business ethics is not about scolding, moralizing, or telling people to be nice. Ethics doesn't have to be annoying or intrusive. On the other hand, it can't just be dismissed altogether because ethics in business is unavoidable. The values guiding our desires and aspirations are there whether they're revealed or not. They must be because no one can do anything without first wanting something. If you don't have a goal, something you're trying to achieve or get, then you won't have anything to do when you get out of bed in the morning. Getting up in the morning and going, consequently, mean that you've already selected something as desirable, valuable, and worth pursuing. And that's *doing* ethics; it's establishing values. The only real and durable difference, therefore, between those who understand ethics and those who don't is that the former achieve a level of self-understanding about what they want: they've compared their values with other possibilities and molded their actions to their decisions. The latter are doing the same thing, just without fully realizing it. The question about whether ethics is necessary, finally, becomes a false

one. You can choose to not understand the ethics you're doing (you can always drop this class), but you can't choose to not do ethics.

### KEY TAKEAWAYS

- Views about the ethical nature of the business vary widely.
- Because ethics is the arrangement of values guiding our aspirations and actions, some form of ethics is unavoidable for anyone acting in the economic world.

### REVIEW QUESTIONS

1. Why might someone believe the business world needs exterior ethical monitoring and correction?
2. What is the argument that the business world can regulate itself, and why is that an ethics?
3. In your own words, why is business ethics unavoidable?

## 1.4 Facebook and the Unavoidability of Business Ethics

### LEARNING OBJECTIVE

1. Show how business ethics stretches beyond working life.

### The Facebook Firing

Business ethics in some form is inescapable inside factories, office buildings, and other places where work gets done. The application of business ethics principles and guidance doesn't stop, though, when the workday ends or outside the company door. Because our economic lives mingle so intimately with our private existences, the decisions and reasoning shaping our laboring eventually shape our lives generally. Business ethics, as the problems bedeviling Dawnmarie Souza show, provides a way to examine and make sense of a large segment of our time, both on and off the job.

Souza's problems started when the ambulance she worked on picked up a "17." That's code for a psychiatric case. This particular 17, as it happened, wasn't too crazy to form and submit a complaint about the treatment received from Souza. Since this was the second grievance the ambulance service had received on Souza in only ten days, she sensed that she'd be getting a suspension. "Looks like," she wrote on her Facebook page later that day, "I'm getting some time off. Love how the company allows a 17 to be a supervisor." She also referred to her real supervisor with some choice four-letter words.

A number of coworkers responded to her post with their own supportive and agreeing comments. Management responded by firing her.

The termination decision came easily to the ambulance service, American Medical Response of Connecticut, since their policy explicitly prohibited employees from identifying or discussing the company or other employees in the uncontrolled public forum that is the Internet. Around the water cooler, at home, or during weekend parties, people can say what they like. Given the semipermanent record that is the web, however, and the ambulance service's natural inclination to protect its public image, posting there was out of bounds.

But, Souza responded, there's no difference. If people can talk at the water cooler and parties, why can't they post on Facebook? She's not claiming to speak for the company, she's just venting with a keypad instead of vocal chords.

The celebrity blogger and Facebook addict Perez Hilton came down on the company's side: "We think Dawnmarie should be fired, and we support the company's decision to let her go. When you post things online, it's out there for the public to see, and it's a sign of disloyalty and disrespect to deal with a work-related grievance in such a manner." "Facebook-Related Firing Sparks Legal Drama!," *PerezHilton.com* (blog), accessed May 11, 2011, <http://perezhilton.com/2010-11-09-woman-fired-over-comments-she-made-about-her-boss-on-facebook-brings-about-court-case#respond>.

## The Reach of Business Ethics

When someone like Perez Hilton—a blogger most comfortable deriding celebrities' bad hair days—finds himself wrapped in a business ethics debate, you've got to figure the discipline is pretty much unavoidable. Regardless, the Souza episode displays many of the ways business ethics connects with our nonworking existence, whether we like it or not:

- It doesn't sound like Souza displayed any great passion about her job. Maybe she really doesn't care that she got fired. Or maybe she cares but only because it means a lost paycheck. On the other hand, it may just have been a bad day; it's possible that she usually gets up in the morning eager to mount the ambulance. It's hard to know, but it's certain that this—the decision about what we want to do with our professional lives—is business ethics. When choosing a job, what has value? The money it provides? Satisfaction from helping others? Status? Or do you just want something that gives you the most free time possible? There are no right or wrong answers, but these are all ethical decisions tangling your personal and professional lives together.
- The mix between the personal and professional on the question of one's job tends to link tighter as people get older. Many of us define who we and others *are* through work. When finding out about someone new, the question—embraced by some and dreaded by others—inevitably comes up. When meeting a woman at a party, when being sent on a blind date, or when discussing old high school friends or the guy who just moved into the next-door apartment, the question hums just below the surface, and it's never long until someone comes out and asks. Of course, for collegians and young people working part-time jobs, it doesn't matter so much because everyone knows that

where you work isn't where you'll end up working. Once someone hits the midtwenties, though, the question "what do you do?" starts to press and it won't let up.

- Perez Hilton wrote that Souza displayed disloyalty to her company when she trashed the management on Facebook. The following questions are raised: What is loyalty? What is it worth? When should you feel it? When do you have a right to demand it from others? Is there any difference among loyalty to the company, to family, and to friends?
- One of Hilton's readers posted a pithy response to Hilton in the web page's comments section: "I bet if she were gay, and did the same exact thing, you would be singing a different tune!" Perez Hilton, it's widely known, is about as exuberantly gay as they come. As it happens, in his line of work that orientation isn't professionally harmful. For others, however, the revelation may be career damaging. Hilton, in fact, is despised by some in Hollywood for his habit of outing gay celebrities, people who hide part of themselves in the name of furthering their career. The business ethics question here is also a life one. Would you hide who you are to facilitate things at work? Should you? Doesn't everyone do that to some extent and in some ways?
- Another reader posted this comment: "In the US, your employer owns you. I mean they can make you piss in a cup to check and see what you did over the weekend." Should employers be able to change what you do over the weekend?
- A number of readers defended Souza by upholding the right to free speech—she should be able to say whatever she wants wherever she wants without fear of retribution. In response to those assertions, this was posted, "Of course we have freedom of speech. Employers also have the freedom to employ whoever they wish. Your decision is whether whatever is on your mind is more important than your job." Does freedom of speech—or any other basic liberty—end or get conditioned when the workday begins?
- One commenter wrote, "I'm going to have to agree with the company on this one. An employer expects proper business demeanor even while off the clock." What is "proper demeanor"? Who decides? On the basis of what?
- Many people spend eight (or more) hours a day on the job. There's no shortage of women who see their boss more than their husband, of men who remember the birthday of the guy in the next cubicle before their own child's. Parties tend to include workmates; companies invite clients to ball games. The sheer hours spent at work, along with the large overlaps between professional and social relationships, make separating the ethics of the office and the home nearly impossible.

- This comment is aimed right at Perez Hilton and his Internet gossip column, which wins few points for checking and confirming claims but definitely gets the juicy and embarrassing rumors out about the private lives of celebrities: “Are you insane? All you did for God knows how long is put nasty stuff up about people for the public to see as a sign of disloyalty and disrespect.” Assuming that’s a reasonable depiction of Hilton’s work, the question his career raises is: what are you willing to do to the lives of others to get yourself ahead at work?

Underlining all these questions is a distinction that’s easy to make in theory but difficult to maintain in real life. It’s one between **institutional business ethics**<sup>11</sup> and **personal business ethics**<sup>12</sup>. Institutional ethics in business deals with large questions in generic and anonymous terms. The rules and discussions apply to most organizations and to individuals who could be anyone. Should companies be allowed to pollute the air? What counts as a firing offense? The personal level, by contrast, fills with questions for specific people enmeshed in the details of their particular lives. If Perez Hilton has gotten rich dishing dirt on others, is he allowed to assert that others must treat their employers respectfully?

#### KEY TAKEAWAY

- The questions pursued by business ethics cross back and forth between professional and personal lives.

#### REVIEW QUESTIONS

1. What are two reasons business ethics decisions tend to affect lives outside work?
2. What are two ways business ethics decisions may affect lives outside work?

11. General questions of business ethics surrounding unidentified corporations and generic individuals.

12. Questions of business ethics attaching to specific people in particular circumstances.

## 1.5 Overview of *The Business Ethics Workshop*

This textbook is organized into three clusters of chapters. The first group develops and explains the main theories guiding thought in business ethics. The goals are to clarify the theoretical tools that may be used to make decisions and to display how arguments can be built in favor of one stance and against others. The questions driving the chapters include the following:

- Are there fundamental rules for action that directly tell us what we ought to do? If so, are the imperatives very specific, including dictates like “don’t lie”? Or are they more flexible, more like rules broadly requiring fairness and beneficence to others?
- Are fundamental rights—especially the conviction that we’re all free to pursue the destinies we choose—the key to thinking about ethics? If we have these rights, what happens when my free pursuit of happiness conflicts with yours?
- Could it be that what we do doesn’t matter so much as the effects of what’s done? How can a framework for decisions be constructed around the idea that we ought to undertake whatever action is necessary (even lying or stealing) in order to bring about a positive end, something like the greater happiness of society overall?
- To what extent are perspectives on right and wrong only expressions of the particular culture we live in? Does it make sense to say that certain acts—say bribery—are OK in some countries but wrong in others?

The second cluster of chapters investigates business ethics on the level of the individual. The goal is to show how the tools of ethical reasoning may be applied to personal decisions made in connection with our nine-to-five lives. The questions driving the chapters include the following:

- What values come into play when a career path is selected?
- Can I justify lying on my résumé? How far am I willing to go to get a raise or promotion?
- Besides a paycheck, what benefits will I seek at work? Money from a kickback? An office romance?
- What do I owe my employer? Is there loyalty in business, or is there nothing more than the money I’m paid and the duties I’m assigned according to my work contract?
- Do I have an obligation to report on someone else doing something I think is wrong?

- If people work for me, what responsibilities do I have toward them inside and outside the office?
- What values govern the way I hire, promote, and fire workers?

The third cluster of chapters considers institutional business ethics. These are general and sweeping issues typically involving corporations, the work environments they promote, and the actions they take in the economic world. Guiding questions include the following:

- What counts as condemnable discrimination in the workplace, and what remedies ought to be tried?
- Which attitudes, requirements, and restrictions should attach to sex and drugs in the workplace?
- Should there be limits to marketing techniques and strategies? Is there anything wrong with creating consumer needs? What relationships should corporations form with their consumers?
- Do corporations hold ethical responsibilities to the larger community in which they operate, to the people who aren't employees or consumers but live nearby?
- Is there a corporate responsibility to defend the planet's environmental health?
- Should the economic world be structured to produce individually successful stars or to protect the welfare of laboring collectives?

## 1.6 Case Studies

## Gray Matters



Source: Photo courtesy of Sasha Wolff, <http://www.flickr.com/photos/sashawolff/3388815964>.

To foster ethical discussion and understanding in the workplace, the Lockheed Martin company developed a quiz for employees called “Gray Matters.” The quiz is multiple choice, with a range of points awarded (or subtracted) depending on the response. Subsequently, the approach has been adopted by a wide range of corporations. Here’s a typical question matched with its possible answers and the corresponding points:

Six months after you hired an assistant accountant who has been working competently and responsibly, you learn that she departed from the truth on her employment application: she claimed she had a college degree when she didn’t. You’re her manager; what should you do?

1. Nothing because she’s doing her job just fine. (-10 points)
2. Bring the issue to the human resources department to determine exactly how company policy determines the situation should be handled. (10 points)
3. Fire her for lying. (5 points)
4. Carefully weigh her work performance, her length of service, and her potential benefit to the company before informing anyone of what happened or making any recommendations. (0 points)

## QUESTIONS

1. The three principle components of business ethics are facts, values, and arguments. What are the facts pertinent to an ethical evaluation of this case? Is there any information not contained in the question that you'd like to have before making a decision about what should be done?
2. From the facts and information provided, can you sketch a set of values and chain of reasoning justifying the answer that the quiz's original authors sanctioned as the right one? (Leave the decision in the hands of the HR department and existing company policy.)
3. You get some points for C (firing her). What values and reasoning may lead to that determination?
4. According to the quiz authors, the worst answer is A. Maybe they're wrong, though. What values and reasoning may lead to the conclusion that doing "nothing because she's doing her job just fine" is an excellent response?
5. One of the most important questions about a situation's facts is "who's involved?"
  - Would it be reasonable to say that, ethically, this is an issue just between you and the woman who you hired after she lied on her résumé?
  - If you expand the answer about who's involved to include other workmates at the company, as well as the company's clients and shareholders, does that change the ethical perspective you have on what should be done with the lying (but capable) coworker?
6. What's the difference between morality and ethics?
  - Would you categorize response B (bring the issue to HR to determine exactly how company policy determines the situation should be handled) as leading to a decision more based on morality or more based on ethics? Explain.
  - Would you categorize response D (carefully weigh her work performance, her length of service, and her potential benefit to the company before informing anyone of what happened or making any recommendations) as leading to a decision more based on morality or ethics? Explain.

## Who Made Your iPhone?



Source: Photo courtesy of Tobias Myrstrand Leander, <http://www.flickr.com/photos/s8an/5207806926/>.

Connie Guglielmo, a reporter for Bloomberg news services, begins an article on Apple this way: “Apple Inc. said three of its suppliers hired 11 underage workers to help build the iPhone, iPod and Macintosh computer last year, a violation it uncovered as part of its onsite audit of 102 factories.” Connie Guglielmo, “Apple Says Children Were Used to Build iPhone, iPod (Update1),” *Bloomberg*, February 27, 2010, accessed May 11, 2011, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aiEeeQNHkrOY>.

Her story adds details. The underage workers were fifteen in places where the minimum legal age for employment is sixteen. She wasn’t able to discover the specific countries, but learned the infractions occurred in one or more of the following: China, Taiwan, Thailand, Malaysia, Singapore, South Korea, the Czech Republic, and the Philippines.

Following the discovery, the employees were released, and disciplinary action was taken against a number of the foreign suppliers. In one case, Apple stopped contracting with the company entirely.

The story closes with this: “Apple rose \$2.62 to \$204.62 yesterday in Nasdaq Stock Market trading. The shares more than doubled last year.”

## QUESTIONS

1. The ethical question is whether Apple ought to contract (through suppliers) fifteen-year-olds to work on factory floors. Is the fact that the stock price has been zooming up a pertinent fact, or does it not affect the ethics? Explain.
2. From the information given and reasonable assumptions about these factories and the living conditions of people working inside them, sketch an ethical argument *against* Apple enforcing the age workplace rule. What fundamental values underwrite the argument?
3. From the information given and reasonable assumptions about these factories and the living conditions of people working inside them, sketch an argument *in favor of* Apple enforcing the age workplace rule. What fundamental values underwrite the argument?
4. Within the context of the Apple situation, what's the difference between making a decision in terms of the law and in terms of ethics?
5. Assume that in the countries where fifteen-year-olds were working, it's customary for children even younger to earn an adult-type living.
  - What is an advantage of following the local customs when making economic decisions like the one confronting Apple?
  - Does the custom of employing young workers in some countries change your ethical consideration of the practice in those places? Why or why not?
6. Attributing responsibility—blaming another for doing wrong—requires that the following conditions hold:
  - The person is able to understand right and wrong.
  - The person acts to cause (or fails to act to prevent) a wrong.
  - The person acts knowing what they're doing.
  - The person acts from their own free will.

Assuming it's unethical for fifteen-year-olds to work factory shifts making iPhones, who bears responsibility for the wrong?

- Do the fifteen-year-olds bear some responsibility? Explain.
- Does Steve Jobs, the CEO of Apple? Explain.
- Are shareholders guilty? Explain.
- Do people who use iPhones bear responsibility? Explain.

**I Swear**



Since 2006, students at the Columbia Business School have been required to pledge “I adhere to the principles of truth, integrity, and respect. I will not lie, cheat, steal, or tolerate those who do.”

This is a substantial promise, but it doesn’t sound like it’ll create too many tremendous burdens or require huge sacrifices.

A somewhat more demanding pledge solidified in 2010 when a group of business school students from Columbia, Duke Fuqua, Harvard, MIT Sloan, NYU Stern, Rensselaer Lally, Thunderbird, UNC Kenan-Flagler, and Yale met to formalize the following MBA Oath:

As a business leader I recognize my role in society.

- My purpose is to lead people and manage resources to create value that no single individual can create alone.
- My decisions affect the well-being of individuals inside and outside my enterprise, today and tomorrow.

Therefore, I promise that:

- I will manage my enterprise with loyalty and care, and will not advance my personal interests at the expense of my enterprise or society.
- I will understand and uphold, in letter and spirit, the laws and contracts governing my conduct and that of my enterprise.
- I will refrain from corruption, unfair competition, or business practices harmful to society.

- I will protect the human rights and dignity of all people affected by my enterprise, and I will oppose discrimination and exploitation.
- I will protect the right of future generations to advance their standard of living and enjoy a healthy planet.
- I will report the performance and risks of my enterprise accurately and honestly.
- I will invest in developing myself and others, helping the management profession continue to advance and create sustainable and inclusive prosperity.

In exercising my professional duties according to these principles, I recognize that my behavior must set an example of integrity, eliciting trust and esteem from those I serve. I will remain accountable to my peers and to society for my actions and for upholding these standards. “The MBA Oath,” MBA Oath, accessed May 11, 2011, <http://mbaoath.org/about/the-mba-oath>.

## QUESTIONS

1. The second introductory clause of the MBA Oath is “My decisions affect the well-being of individuals inside and outside my enterprise, today and tomorrow.” “The MBA Oath,” MBA Oath, accessed May 11, 2011, <http://mbaoath.org/about/the-mba-oath>. What’s the difference between seeing this as a positive ethical stand in favor of a broad social responsibility held by those in business, and seeing it as arrogance?
2. Looking at the MBA Oath, can you list a set of values that are probably shared by those responsible for its creation?
3. All this pledging and oath-taking suddenly popping up at business schools drew the attention of the *New York Times*, and soon after, an article appeared: “A Promise to Be Ethical in an Era of Immorality.” Leslie Wayne, “A Promise to Be Ethical in an Era of Immorality,” *New York Times*, May 29, 2009, accessed May 11, 2011, <http://www.nytimes.com/2009/05/30/business/30oath.html>. Many of the readers’ comments at the end are interesting. The commenter paulnyc writes that “most students go to MBA programs to advance their careers and to earn more money, pure and simple, and there is nothing wrong with it.” paulnyc, May 30, 2009 (10:58 a.m.), comment on Leslie Wayne, “A Promise to Be Ethical in an Era of Immorality,” *New York Times*, May 29, 2009, accessed May 11, 2011, <http://community.nytimes.com/comments/www.nytimes.com/2009/05/30/business/30oath.html?sort=oldest>.
  - What values underlie paulnyc’s perspective?
  - How is paulnyc’s vision different from the one espoused in the oath?
4. The commenter JerryNY wrote, “Greed IS good as long as it is paired with the spirit of fairness. Virtually all of the major advances in science and technology were made with greed as one of the motivating factors. Guglielmo [sic] Marconi, Alexander Graham Bell, Bill Gates, Henry Ford and Steve Jobs would not have given us the life-changing technological advances of our time were it not for personal greed. Remove that element, and your class is destined for mediocrity.” JerryNY, May 30, 2009 (10:51 a.m.), comment on Leslie Wayne, “A Promise to Be Ethical in an Era of Immorality,” *New York Times*, May 29, 2009, accessed May 11, 2011, <http://community.nytimes.com/comments/>

[www.nytimes.com/2009/05/30/business/30oath.html?sort=oldest](http://www.nytimes.com/2009/05/30/business/30oath.html?sort=oldest).

Is it plausible to assert that JerryNY shares most of the values of those who wrote the MBA Oath, it's just that he sees a different business attitude as the best way to serve those values? If so, explain. If not, why not?

5. Eric writes,

I would refuse to take that oath...on principle. The idea that an individual's proper motive should be to serve "the greater good" is highly questionable. This altruistic ethic is what supported the collectivist of communism and national socialism. If my life belongs first and foremost to "the greater good," it follows that the greatest virtue is to live as a slave. A slave's existence, after all, is devoted primarily for the benefit of his master. The master can be a plantation owner or a King or an oligarchy or a society that demands your servitude.

The only oath I'd be willing to take is, "I swear, by my life and my love of it, that I will never live for the sake of another man, nor ask another man to live for mine." Eric, May 30, 2009 (10:35 a.m.), comment on Leslie Wayne, "A Promise to Be Ethical in an Era of Immorality," *New York Times*, May 29, 2009, accessed May 11, 2011, <http://community.nytimes.com/comments/www.nytimes.com/2009/05/30/business/30oath.html?sort=oldest>.

In your own words, contrast the values the MBA Oath supporters espouse with the values the commenter Eric espouses.

6. The commenter Clyde Wynant is skeptical. He writes this about those who take the MBA Oath: "Call me hyper-cynical, but I can't help wondering if a lot of these kids aren't hoping that having this 'pledge' on their résumé might help them look good." Clyde Wynant, May 30, 2009 (10:55 a.m.), comment on Leslie Wayne, "A Promise to Be Ethical in an Era of Immorality," *New York Times*, May 29, 2009, accessed May 11, 2011, <http://community.nytimes.com/comments/www.nytimes.com/2009/05/30/business/30oath.html?sort=oldest>.

Is it unethical to take the pledge without expecting to adhere to it simply because you think it will help in your job search, or is that strategy just a different kind of ethics? Explain.

7. The commenter Mikhail is skeptical. He writes, “Give me a break...With the next upswing of the economy, these leeches will be sucking the lifeblood out of our collective economies like the champions they truly are!!! Yes, perhaps opportunistic parasites every last one of them—but really, it’s not their fault—they’re just programmed that way.”Mikhail, May 30, 2009 (10:35 a.m.), comment on Leslie Wayne, “A Promise to Be Ethical in an Era of Immorality,” *New York Times*, May 29, 2009, accessed May 11, 2011, <http://community.nytimes.com/comments/www.nytimes.com/2009/05/30/business/30oath.html?sort=oldest>.

When he says business school students are programmed, what does he mean? If someone is programmed to be an opportunistic parasite in business, can we blame them for what they do? If so, how? If not, who should be blamed?

8. The commenter as is skeptical. He writes, “Don’t make me laugh. If they are so concerned about the ‘greater good,’ go into teaching and nursing.”as, May 30, 2009 (10:35 a.m.), comment on Leslie Wayne, “A Promise to Be Ethical in an Era of Immorality,” *New York Times*, May 29, 2009, accessed May 11, 2011, <http://community.nytimes.com/comments/www.nytimes.com/2009/05/30/business/30oath.html?sort=oldest>.

Assume the MBA Oath does stress the importance of the greater good, and you too are going into the economic world with that as a privileged value. How could you respond to the argument that you really should be doing nursing or something more obviously serving the general good?

9. According to the *Times*, B-schoolers aren’t lining up for the MBA Oath: only about 20 percent take the pledge. How could you convince the other 80 percent to sign on?

**I.M.P. (It's My Party)**

“Look at them!” he said, his eyes dancing. “That’s what it’s all about, the way the people feel. It’s not about the sellout performances and the caliber of the bands who appear here. It’s about the people who buy tickets, having a good time.” Avis Thomas-Lester, “A Club Owner’s Mojo,” *Washington Post*, December 28, 2009, accessed May 11, 2011, [http://views.washingtonpost.com/on-success/what-it-takes/2009/12/seth\\_hurwitz.html](http://views.washingtonpost.com/on-success/what-it-takes/2009/12/seth_hurwitz.html).



Source: Photo courtesy of Kevin Dooley, <http://www.flickr.com/photos/pagedooley/4530723795/>.

That’s Seth Hurwitz quoted in the *Washington Post*, talking about his 9:30 Club, a small venue playing over-the-hill bands on the way down, and fresh acts scratching their way up.

The story’s curious detail is that even though Hurwitz calls his company I.M.P. (It’s My Party), he doesn’t spend much time at his club. In fact, he’s almost never there. Part of the reason is that his workday begins at 6 a.m., so he’s actually back in bed preparing for the next day before his enterprise gets going in earnest each night. His job is straightforward: sitting in the second floor office of his suburban DC home, he scrutinizes the music publications and statistics, probing for bands that people want to see and that won’t charge too much to appear. He told the *Post* that he won’t book an act as a favor, and he won’t flatter a group into playing his club to keep them away from the competition by overpaying them. “I don’t subscribe,” he says, “to doing shows that will lose money.”

Hurwitz has been connected with music in one way or another for almost as long as he can remember. The *Post* relates some of his early memories:

He rigged a system to broadcast radio from his basement to his parents and brothers in the living room. “I used to bring my singles into class and play them,” Hurwitz said. When he was 16, he decided he wanted to be a deejay and got his chance when alternative rock station WHFS gave him a spot. “It was from 7:45 to 8—fifteen minutes,” he said, laughing. “But that was okay because I wanted to be on the radio, and I had my own show, as a high school student.” He said he was fired “for being too progressive.” Avis Thomas-Lester, “A Club Owner’s Mojo,” *Washington Post*, December 28, 2009, accessed May 11, 2011, [http://views.washingtonpost.com/on-success/what-it-takes/2009/12/seth\\_hurwitz.html](http://views.washingtonpost.com/on-success/what-it-takes/2009/12/seth_hurwitz.html).

It’s a long way from getting fired for playing music too obscure for alternative radio to where Hurwitz is now: putting on concerts by bands selected because they’ll make money.

## QUESTIONS

1. Hurwitz is brutally honest about the fact that he'll only contract bands capable of turning a profit. When he was younger and a deejay, he insisted on playing the music he judged best no matter how many people turned off the radio when his show came on (an attitude that cost him the job).
  - What, if anything, is Hurwitz the older concert promoter compromising to get ahead? Is there an ethical objection that could be raised here? If so, what? If not, why not?
  - When Hurwitz was a deejay, he played records that led people to change the station. Then the station changed him. Is this an example of business regulating itself? Is there an ethical side to this, or is it just the way money works? Explain.
  - From the information given, would you judge that Hurwitz is successful in business? Why or why not?
  - Are all these questions part of institutional business ethics or personal business ethics? Explain.
2. Hurwitz says that he doesn't book bands as favors. Presumably at least some of the favors he's talking about would be to friends.
  - Do people who run their own company have an ethical responsibility to separate friends from business?
3. One nice thing about Hurwitz working upstairs in his own house is that he can show up for work in the morning in his pajamas. Should all places of business be like that—with people free to wear whatever they want for work? Explain your answer from an ethical perspective.
4. Most of Hurwitz's shows are on weeknights. Some concertgoers may have such a good time that they can't make it in to work the next day.
  - If you go to a concert on a Wednesday and are too hung over to make it to work on Thursday, what should you tell your boss on Friday? That you were hung over? That your car broke down? Something else? Justify.
  - Should Hurwitz accept some responsibility and blame for absent employees? Explain.