



For forty years, successive editions of *Ethical Theory and Business* have helped to define the field of business ethics. The tenth edition reflects the current, multidisciplinary nature of the field by explicitly embracing a variety of perspectives on business ethics, including philosophy, management, and legal studies. Chapters integrate theoretical readings, case studies, and summaries of key legal cases to guide students to a rich understanding of business ethics, corporate responsibility, and sustainability. The tenth edition has been entirely updated, ensuring that students are exposed to key ethical questions in the current business environment. New chapters cover the ethics of IT, ethical markets, and ethical management and leadership. Coverage includes climate change, sustainability, international business ethics, sexual harassment, diversity, and LGBTQ discrimination. New case studies draw students directly into recent business ethics controversies, such as sexual harassment at Fox News, consumer fraud at Wells Fargo, and business practices at Uber.

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Denis G. Arnold is the Surtman Distinguished Professor of Business Ethics at the University of North Carolina, Charlotte.

Tom L. Beauchamp holds graduate degrees from Yale University and Johns Hopkins University, where he received his Ph.D. in 1970.

Norman E. Bowie is the author or editor of eighteen books in business ethics, ethics, and political philosophy.

ARNOLD,
BEAUCHAMP,
AND BOWIE

ETHICAL THEORY
AND BUSINESS
TENTH EDITION

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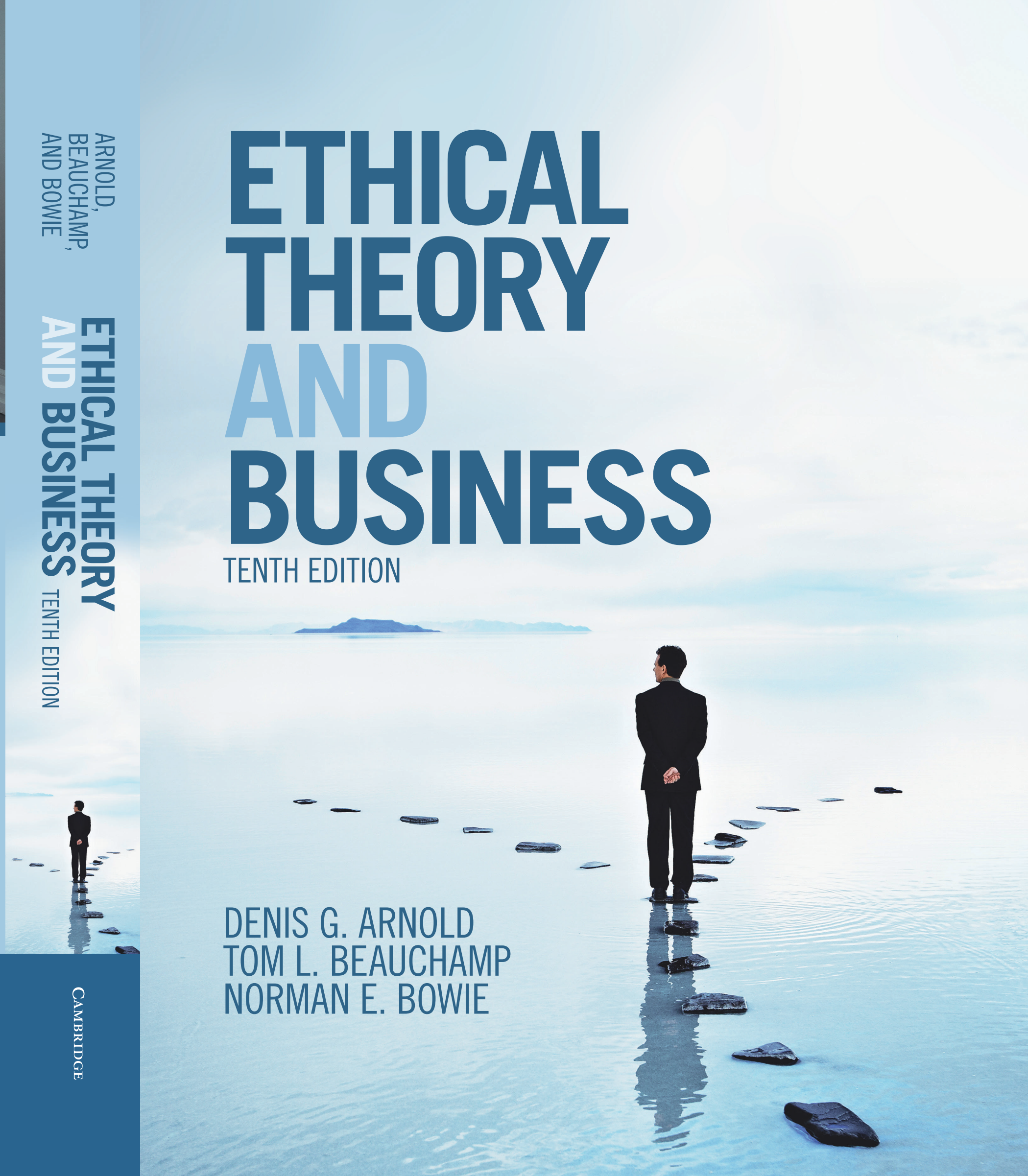
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ETHICAL THEORY AND BUSINESS

TENTH EDITION

DENIS G. ARNOLD
TOM L. BEAUCHAMP
NORMAN E. BOWIE



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Denis G. Arnold is the Surtman Distinguished Professor of Business Ethics at the University of North Carolina, Charlotte. One of the world's leading experts in business ethics, he is a former Editor in Chief of the prestigious scholarly journal *Business Ethics Quarterly*, published by Cambridge University Press, and a past president of the Society for Business Ethics. His research includes scores of articles and chapters and several books. A distinguished teacher praised by students at the undergraduate, MBA, doctoral, and executive levels, he has provided ethics training for leaders at Fortune 500 companies, smaller enterprises, and non-profit organizations.

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ETHICAL THEORY AND BUSINESS

Tenth Edition

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Preface

It has been forty years since the publication of the first edition of *Ethical Theory and Business* by Norm Bowie and Tom Beauchamp. At that point in time, the book helped to originate and define the academic field of business ethics. Ethical issues have become even more complex and firm misconduct has not abated; unfortunately, this tenth edition is just as relevant now as it was forty years ago. Subjects covered in the book should be of considerable interest and assistance in addressing the many challenging ethical issues confronted by contemporary business.

In 1979 business ethics was primarily a philosophical field and philosophers were the primary teachers of business ethics courses in colleges and universities. Today, business ethics is a multidisciplinary field with scholars from the social sciences making some of the most important contributions to the field and in the classroom. Social scientists have made particularly important contributions to our understanding of the causes of firm misconduct and to understanding the features of organizational design that hinder or enhance ethical business practices. The tenth edition reflects the multidisciplinary nature of the field by including social scientific as well as philosophical perspectives. The textbook can be readily used by teachers from any field, and will provide students in all majors with cutting edge, multidisciplinary perspectives on the most important ethical issues confronting contemporary business.

With this edition, Cambridge University Press has taken over the publication of the book. As one of the world's leading academic presses, Cambridge will allow the book to remain focused on the needs of faculty and students. This edition contains over twenty new case studies on the many ethical issues in business that have made headlines since the ninth edition was published. Legal perspectives, which our former publisher had placed online and charged a fee for students to access, reappear in this edition in the physical textbook. The legal perspectives have been transformed by the editors into summaries (rather than the previous, edited excerpts from court decisions) making them even more user friendly for students. The book has been expanded to include new material, including stand-alone chapters on management, leadership, and governance, and on the ethical limits of markets. The book has more material than is likely to be used in a single course, and this feature allows faculty to tailor the course to their own needs. Most of the case studies can be used with multiple readings, and not merely with the readings in the chapters in which they appear. Faculty may wish to assign all of the opening chapter to students, or only excerpts from that chapter, something that is facilitated by major section breaks. The great variety of topics in the book is a reflection both of the complex environments in which businesses operate and the growth of the literature in the field. It is hoped that you enjoy the range and variety of subjects that are covered in the following pages.

Denis G. Arnold

Ethical Theory and Business Practice

1.1 INTRODUCTION

Can business organizations be just? Should the chief obligation of managers be to look out for the bottom line, or do managers also have obligations to other stakeholders such as customers and employees? Should business organizations be environmentally sustainable? Do global business organizations have obligations to protect human rights wherever they do business? How much influence can businesses legitimately exert over public policy? These are some of the many questions that permeate discussions of the role of ethics in business.

The essays and cases in this book provide an opportunity to discuss these questions by reading and reflecting on influential arguments that have been made on these subjects by leading experts. The goal of this first chapter is to provide a foundation in ethical theory sufficient for reading and critically evaluating the material in the ensuing chapters.

1.2 FUNDAMENTAL CONCEPTS

MORALITY AND ETHICAL THEORY

A distinction between morality and ethical theory is employed in several essays in this volume. *Morality* is concerned with social practices defining right and wrong. These practices – together with other kinds of customs, rules, and mores – are transmitted within cultures and institutions from generation to generation. Similar to political constitutions and natural languages, morality exists prior to the acceptance (or rejection) of its standards by particular individuals. In this respect, morality cannot be purely a personal policy or code and is certainly not confined to the rules in professional codes of conduct adopted by corporations and professional associations.

In contrast with *morality*, the terms *ethical theory* and *moral philosophy* point to reflection on the nature and justification of right actions. These words refer to attempts to introduce clarity, substance, and precision of argument into the domain of morality. Although many people go through life with an understanding of morality dictated by their culture or religion, other persons are not satisfied to merely conform to their upbringing or the doctrines that have been passed on to them. They want difficult ethical questions answered in ways that can be rationally explained and justified and can be coherently linked with other justified beliefs.

Ethical theorists seek to put moral beliefs and social practices of morality into a unified and defensible shape. Sometimes this task involves challenging conventional moral beliefs by assessing

the quality of moral arguments and suggesting modifications in existing beliefs. Other times it involves the application of ethical theory to new problems such as privacy in the Internet era, climate change, or pharmaceutical marketing. Morality, we might say, consists of what persons ought to do in order to conform to society's norms of behavior, whereas ethical theory concerns the philosophical reasons for and against aspects of social morality. Usually the latter effort centers on *justification*: philosophers seek to justify a system of standards or some moral point of view on the basis of carefully analyzed and defended concepts and principles such as respect for autonomy, distributive justice, equal treatment, human rights, beneficence, and truthfulness.

Social scientists, on the other hand, are primarily concerned with understanding why individuals, groups, and organizations behave in certain ways. Why are some people more susceptible to peer pressure than others? How can leaders encourage ethical conduct on the part of followers? What do employees perceive to be a just organizational environment, and what do they perceive to be unjust? What types of organizational systems and processes support ethical conduct, and what types support misconduct? These types of questions, and the empirical studies that are designed to answer them, are at the heart of the study of behavioral business ethics. While philosophical ethics is an ancient field of study dating back to at least ancient Greek philosophers such as Socrates, Plato, and Aristotle, behavioral business ethics is a new field of applied psychology and management studies dating from the 1990s. This book includes both subjects.

Most moral principles are already embedded in public morality, but usually in a vague and underanalyzed form. Justice is a good example. Recurrent topics in the pages of the *Wall Street Journal*, *Fortune*, *Businessweek*, and other leading business outlets, often discuss the justice of the present system of corporate and individual taxation as well as the salaries and bonuses paid to executives, especially at firms that lost money for shareholders or that require taxpayer bailouts to survive, and the offshore outsourcing of jobs from one country to another. However, an extended or detailed analysis of principles of justice is virtually never provided in the media. Such matters are left at an intuitive level, where the correctness of a particular moral point of view is assumed, without argument.

Yet, the failure to provide anything more than a superficial justification, in terms of intuitive principles learned from parents or peers, leaves people unable to defend their principles when challenged or to persuade others of their position. In a society with many diverse views of morality, one can be fairly sure that one's principles will be challenged. A business person who asserts that a particular practice is morally wrong (or right) can expect to be challenged within her organization by colleagues who disagree. She will have little influence within her organization if she cannot also explain *why* she believes that action is wrong (or right). To defend her assertion she must be able to *justify* her position by providing reasoned arguments. The tools of ethics, then, can be of significant value to students of business, managers, and leaders.

MORALITY AND PRUDENCE

Most students do not encounter ethics as an academic topic of study until college or graduate school. Morality, however, is learned by virtually every young child as part of the acculturation process. The first step in this process is learning to distinguish moral rules from rules of prudence (self-interest). This task can be difficult, because the two kinds of rules are taught simultaneously, without being distinguished by the children's teachers. For example, people are constantly reminded in their early years to observe rules such as "Don't touch the hot stove," "Don't cross the street without looking both ways," "Brush your teeth after meals," and "Eat your vegetables." Most of these "oughts" and "ought

nots” are instructions in self-interest – that is, rules of prudence, but moral rules are taught at the same time. Parents, teachers, and peers teach that certain things *ought not* to be done because they are “wrong” (morally) and that certain things *ought* to be done because they are “right” (morally): “Don’t pull your sister’s hair.” “Don’t take money from your mother’s pocketbook.” “Share your toys.” “Write a thank-you note to Grandma.” These moral instructions seek to control actions that affect the interests of other people. As people mature, they learn what society expects of them in terms of taking into account the interests of other people.

One common observation in business is that self-interest and good ethics generally coincide, because it is usually in one’s interest to act morally. We continually hear that good ethics is good business. This fact makes evaluating another’s conduct difficult and may tend to confuse moral reasoning with prudential reasoning. An example of how moral and prudential reasoning can run together is evident in the decision BB&T bank made about its home lending practices. During the subprime mortgage lending craze that led to the credit crisis and the great recession, banks and other lenders issued lucrative mortgages to borrowers who could not hope to repay the loans, often using deceptive or predatory means. In the short term, borrowers were able to own homes they could not otherwise afford, and lenders made a lot of money. But in the end many borrowers lost their homes and lenders became unprofitable, went out of business, or required the government to bail them out. North Carolina-based BB&T, with 1,800 regional banking outlets, declined to issue these bad loans and remained profitable throughout the years of the credit crisis and the great recession. In explaining their lending practices, John Allison, the retired CEO of BB&T, said, “Absolutely never do anything that is bad for your client. Maybe you’ll make a profit in the short term, but it will come back to haunt you . . . We knew that housing prices wouldn’t go up forever, and we were setting up a lot of young people to have serious economic problems.”¹

Another example of moral and prudential reasoning running together in business is found in the decision of the Marriott Corporation to make a concerted effort to hire persons who had been on welfare. These individuals had often been considered high risk as employees, but changes in the US welfare system forced many welfare recipients to seek work. Marriott was one of the few major companies to take the initiative to hire them in large numbers. Such behavior might be considered an example of moral goodwill and ethical altruism. Although corporate officials at Marriott clearly believed that their decision was ethically sound and promoted the public good, they also believed that their initiative to hire former welfare recipients was good business. J. W. Marriott, Jr., said, “We’re getting good employees for the long term, but we’re also helping these communities. If we don’t step up in these inner cities and provide work, they’ll never pull out of it. But it makes bottom line sense. If it didn’t, we wouldn’t do it.”²

The mixture of moral language with the language of prudence is often harmless. Many people are more concerned about the *actions* businesses take than with their *motivations* to perform those actions. These people will be indifferent as to whether businesses use the language of prudence or the language of morality to justify what they do, as long as they do the right thing. This distinction between motives and actions is very important to philosophers, however, because a business practice that might be prudentially justified also might lack moral merit or might even be morally wrong. History has shown that some actions that were long accepted or at least condoned in the business community were eventually condemned as morally dubious. Examples include pollution of the air and water, forced labor, deceitful marketing, and large political contributions and lobbying directed at people of political influence.

Business people often reflect on the morality of their actions not because it is prudent to do so but because it is right to do so. For example, Elo TouchSystems Inc., a subsidiary of Raychem Corporation

that manufactures computer and other monitors, decided to relocate the company from Oak Ridge, Tennessee, to Freemont, California. As a matter of fidelity to its 300 employees, the company attempted to find new jobs for them in the Oak Ridge area by placing advertisements, sponsoring job fairs, and the like. It also offered generous bonuses for those who would relocate to California. In light of the pool of talent known to the company to be available in California, none of this activity in Tennessee seemed in the company's prudential interest. It simply seemed the morally appropriate policy.

It is widely believed that acting morally is in the interest of business, and thus prudence seems to be one strong motive – perhaps the main motive – for acting ethically. However, throughout this text we will repeatedly see that prudence often dictates a different business decision than does morality. In other words, business people must frequently choose between doing the right thing and doing what is good for business. This conflict informs many of the readings and cases in this book.

MORALITY AND LAW

Business ethics is currently involved in an entangled, complex, and mutually stimulating relationship with the law in various countries and international agreements. Morality and law share concerns over matters of basic social importance and often have in common certain principles, obligations, and criteria of evidence. Law is the public's agency for translating morality into explicit social guidelines and practices and for stipulating punishments for offenses. Several selections in this book mention case law (judge-made laws expressed in court decisions), statutory law (federal and state statutes and their accompanying administrative regulations), and international law (treaties and agreements among nations). In these forms, law has forced vital issues before the public and is frequently the source of emerging issues in business ethics. Case law, in particular, has established influential precedents in the United States that provide material for reflection on both legal and moral questions.

Some have said that corporate concern about business ethics can be reduced or eliminated by turning problems over to the legal department. The operative idea is "Let the lawyers decide; if it's legal, it's moral." Although this tactic would simplify matters, moral evaluation needs to be distinguished from legal evaluation. Despite an intersection between morals and law, the law is not the sole repository of a society's moral standards and values, even when the law is directly concerned with moral problems. A law-abiding person is not necessarily morally sensitive or virtuous, and the fact that something is legally acceptable does not imply that it is morally acceptable. For example, forced labor and slavery have been legal in many nations and are still sanctioned in some rogue nations but are clearly unjust. In Saudi Arabia current laws systematically discriminate against women. "If you're a Saudi woman, you can't board an airplane, get a job, go to school or get married without the permission of a male 'guardian,' whether a husband, father or, if they're both out of the picture, your son."³ Currently "at-will" employees in the United States and "casual workers" in Australia can be legally fired for morally unacceptable reasons. Many questions are raised in subsequent chapters about the morality of business actions such as plant relocation, outsourcing, and mergers that cause unemployment, even though such actions are not illegal.

Consider the following examples: It was perfectly legal when beer distributor CJW Inc. fired its employee 24-year-old Isac Aguero of Racine, Wisconsin, for drinking a Bud Light at a local bar after work. CJW is the local distributor of Miller beer, and Aguero's bosses disliked his supporting the competition. Because Aguero was an "at-will" employee, he had no legal recourse (see Chapter 2).⁴ So too, it was legal when Houston financier Charles E. Hurwitz doubled the rate of tree cutting in the nation's largest privately owned virgin redwood forest. He did so to reduce the debt he incurred when

his company, the Maxxam Group, borrowed money to complete a hostile takeover of Pacific Lumber Company, which owned the redwoods. Before the takeover, Pacific Lumber had followed a sustainable cutting policy but nonetheless had consistently operated at a profit. Despite the legality of the new clear-cutting policy initiated by the new owner, it has been criticized as immoral.⁵ Lastly, it may have been legal for Merrill Lynch executives to pay themselves millions of dollars in bonuses after losing billions of dollars in shareholder value by making imprudent investments, but most outside observers believe this compensation was unfair (see Chapter 11).

A related problem involves the belief that a person found guilty under law is therefore morally guilty. Such judgments are not necessarily correct, as they depend on either the intention of the agents or the moral acceptability of the law on which the judgment has been reached. For example, if a chemical company is legally liable for polluting the environment, or a pharmaceutical firm is liable for a drug that has harmed certain patients, it does not follow that any form of moral wrongdoing, culpability, or guilt is associated with the activity.

Asbestos litigation is a well-known example. Because of the strength, durability, and fire resistance of asbestos, it was used in thousands of consumer, automotive, scientific, industrial, and maritime processes and products. Virtually no serious social attention was paid to asbestos in the United States until 1964, when a strong link was established between asbestos dust and disease. As many as 27 million US workers may have been exposed to this fiber, and 100 million people may have been exposed to asbestos in buildings. Manufacturers did not know about these problems of disease until around 1964; but beginning with the 1982 bankruptcy of the Johns-Manville Corporation, many corporations were successfully sued. The problem continues to escalate today, especially owing to cases brought by mesothelioma patients and by persons who worked with asbestos but actually have no asbestos-related illness. Over the years of litigation, at least 8,000 companies have been sued, 95 corporations have been bankrupted, and costs have exceeded \$70 billion. Although asbestos manufacturers and their customers originally had good intentions and good products, they paid a steep price under the law.⁶

Furthermore, the courts have often been accused of causing moral inequities through court judgments rendered against corporations.⁷ For example, Dow Corning was successfully sued by plaintiffs alleging that personal injuries resulted from Dow's silicone breast implants, leading the company to file bankruptcy. After an exhaustive study, the US Food and Drug Administration concluded that there is no evidence that silicone breast implants present health risks. In another case, Chevron Oil was successfully sued for mislabeling its cans of the herbicide paraquat, although the offending label conformed exactly to federal regulations, which permitted no other form of label to be used. In both cases it is easy to understand why critics have considered various regulations, legislation, and case-law decisions unjustified.

Taken together, these considerations lead to the following conclusions: If something is legal, it is not necessarily moral; if something is illegal, it is not necessarily immoral. To discharge one's legal obligations is not necessarily to discharge one's moral obligations.

THE RULE OF CONSCIENCE

The slogan "Let your conscience be your guide" has long been, for many, what morality is all about. Yet, despite their admiration for persons of conscience, ethicists have typically judged appeals to conscience alone as insufficient and untrustworthy for ethical judgment. Consciences vary radically from person to person and time to time; moreover, they are often altered by circumstance, religious belief, childhood, and training. One example is found in the action of

Stanley Kresge, the son of the founder of S. S. Kresge Company – now known as the K-Mart Corporation – who is a teetotaler for religious reasons. When the company started selling beer and wine, Kresge sold all his stock. His conscience, he said, would not let him make a profit on alcohol. The company, though, dismissed his objection as “his own business” and said that it saw nothing wrong with earning profits on alcohol.⁸ A second example is that of factory farming animals in confined conditions that cause them significant pain and suffering and that require the use of antibiotics to prevent disease. Many consumers don’t believe there is anything morally objectionable about these practices since it provides them with inexpensive protein, but increasing numbers of consumers believe that the pain caused to animals is unjustified and that the use of antibiotics is harmful to human health. Their consciences lead them to choose pasture farmed animal products or to adopt vegetarian diets. The consciences of some people lead them to take further action and to join activist groups and to protest factory farming. In rare cases, activists have physically destroyed factory farm facilities.

In any given classroom, the consciences of students will lead them to have different views about the moral legitimacy of using marijuana, hacking, or lying on one’s résumé. The reliability of conscience, in short, is not self-certifying. Moral justification must be based on a source external to individual conscience.

APPROACHES TO THE STUDY OF ETHICS

Morality and ethical theory can be studied and developed by a variety of methods, but three general approaches have dominated the literature. Two of these approaches describe and analyze morality, presumably without taking moral positions. The other approach takes a moral position and appeals to morality or ethical theory to underwrite judgments. These three approaches are (1) descriptive, (2) conceptual, and (3) normative (prescriptive). These categories do not express rigid and always clearly distinguishable approaches. Nonetheless, when understood as broad positions, they can serve as models of inquiry and as valuable distinctions.

Social scientists often refer to the first approach as the *descriptive approach*, or the *scientific study* of ethics. Factual description and explanation of moral behavior and beliefs of employees, managers, leaders, and organizations, as performed by management and organization science scholars, are typical of this approach. The second approach involves the *conceptual study* of significant terms in ethics. Here, the meanings of terms such as *right*, *obligation*, *justice*, *good*, *virtue*, and *responsibility* are analyzed. Crucial terms in business ethics such as *liability*, *deception*, *corporate intention*, and *stakeholder* can be given this same kind of careful conceptual attention. The proper analysis of the term *morality* (as defined at the beginning of this chapter) and the distinction between the moral and the nonmoral are typical examples of these conceptual problems.

The third approach, *normative* (prescriptive) *ethics*, is a prescriptive study attempting to formulate and defend basic moral norms. Normative business ethics aims at determining what *ought* to be done, which needs to be distinguished from what *is*, in fact, practiced. Ideally, an ethical theory provides reasons for adopting a whole system of moral principles or virtues. *Utilitarianism* and *Kantianism* are the two most influential theories and a basic understanding of them is essential for all university students. Utilitarians argue that there is but a single fundamental principle determining right action, which can be roughly stated as follows: “An action is morally right if and only if it produces at least as great a balance of value over disvalue as any available alternative action.” Kantians, by contrast, have argued for principles that specify obligations rather than a balance of value. For example, one of Kant’s best-known principles of obligation is “Never treat another person merely as a means to your own

goals,” even if doing so creates a net balance of positive value. Both forms of these theories, together with other dimensions of ethical theory, are examined later in this chapter.

Principles of normative ethics are commonly used to treat specific moral problems such as fairness in contracts, conflicts of interest, environmental pollution, mistreatment of animals, and racial and sexual discrimination. This use of ethical theory is often referred to, somewhat misleadingly, as *applied ethics*. Philosophical treatment of business ethics involves the focused analysis of a moral problem and the use of careful reasoning that employs general ethical principles to attempt to resolve problems that commonly arise in the professions.

Substantially the same general ethical principles apply to the problems across professional fields, such as engineering and medicine, and in areas beyond professional ethics as well. One might appeal to principles of justice, for example, to illuminate and resolve issues of taxation, healthcare distribution, responsibility for environmental harm, criminal punishment, and racial discrimination. Similarly, principles of veracity (truthfulness) apply to debates about secrecy and deception in international politics, misleading advertisements in business ethics, balanced reporting in journalistic ethics, and disclosure of illness to a patient in medical ethics. Increased clarity about the general conditions under which truth must be told and when it may be withheld would presumably enhance understanding of moral requirements in each of these areas.

The exercise of sound judgment in business practice together with appeals to ethical theory are central in the essays and cases in this volume. Rarely is there a straightforward “application” of principles that mechanically resolves problems. Principles are more commonly *specified*, that is, made more concrete for the context, than applied. Much of the best work in contemporary business ethics involves arguments for how to specify principles to handle particular problems.

1.3 FUNDAMENTAL PROBLEMS

RELATIVISM AND OBJECTIVITY OF BELIEF

Some writers have contended that moral views simply express the ways in which a culture both limits and accommodates the desires of its people. In the early part of the twentieth century, defenders of relativism used the discoveries of anthropologists in the South Sea Islands, Africa, and South America as evidence of a diversity of moral practices throughout the world. Their empirical discoveries about what is the case led them to the conclusion that moral rightness is contingent on cultural beliefs and that the concepts of rightness and wrongness are meaningless apart from the specific historical and cultural contexts in which they arise. The claim is that patterns of culture can be understood only as unique wholes and that moral beliefs about moral behavior are closely connected in a culture.

Descriptive claims about what *is* the case in cultures have often been used by relativists to justify a *normative* position as to what *should* be the case or what *ought* to be believed. That is, some ethical relativists assert that whatever a culture thinks is right or wrong really is right or wrong for the members of that culture. This thesis is normative, because it makes a value judgment; it delineates *which standards or norms correctly determine right and wrong behavior*. Thus, if the Swedish tradition allows abortion, then abortion really is morally permissible in Sweden. If the Mexican tradition forbids abortion, then abortion really is wrong in Mexico.

Ethical relativism provides a theoretical basis for those who challenge what they consider to be the imposition of Western values on the rest of the world. Specifically, some spokespersons in Asia have

criticized what they regard as the attempts of Westerners to impose their values (as the normatively correct values) on Asian societies. For example, it is argued that Asians give more significant value than do Westerners to the welfare of society when it is in conflict with the welfare of the individual. However, it has also been pointed out that because of the range of values embraced by and within Asian nations it is all but impossible to say that there is such an entity as “Asian values.” Secular Asian societies such as India, for example, have long traditions of respect for individual rights and embrace values consonant with Western societies. Also, younger generations tend to have significantly different views about the rights of individuals from those of older generations.

Despite the influence of relativism and multiculturalism, there have been many recent attempts by government agencies, non-governmental organizations, and multinational corporations to promulgate international codes of business conduct that surmount relativism (see Chapter 9). In the era of economic globalization, these efforts are increasing rather than diminishing.

Ethical theorists have tended to reject relativism, and it is important to understand why. First, we need to ask: What does the argument from the fact of cultural diversity reveal? When early anthropologists probed beneath surface “moral” disagreements, they often discovered agreement at deeper levels on more basic values. For example, one anthropologist discovered a tribe in which parents, after raising their children and when still in a relatively healthy state, would climb a high tree. Their children would then shake the tree until the parents fell to the ground and died. This cultural practice seems vastly different from Western practices. The anthropologist discovered, however, that the tribe believed that people went into the afterlife in the same bodily state in which they left this life. Their children, who wanted them to enter the afterlife in a healthy state, were no less concerned about their parents than are children in Western cultures. Although cultural disagreement exists concerning the afterlife (a disagreement about what is or is not the case), there is no ultimate *moral* disagreement over the moral principles determining how children should treat their parents.

A contemporary business example can also help illustrate this point. Bribery is widely used by businesses to obtain contracts in Afghanistan and Russia, but is regarded as an unacceptable means to secure contracts in Canada and Australia. This might be taken to show that bribery really is morally permissible in Afghanistan and Russia and wrong in Canada and Australia. However, the fact that bribery is widely practiced in Afghanistan and Russia does not necessarily mean that it is regarded as morally acceptable behavior by most people in those nations. It is more likely the case that those who engage in bribery simply have greater power than do most people in those nations and so can engage in the behavior without repercussions.

Despite their many obvious differences of practice and belief, people often do actually agree about what may be called *ultimate moral standards*. For example, both Germany and the United States have laws to protect consumers from the adverse effects of new drugs and to bring drugs to the market as quickly as possible so that lives are saved. Yet, Germany and the United States have different standards for making the trade-off between protecting consumers from side-effects and saving lives as soon as possible. This suggests that two cultures may agree about basic principles of morality yet disagree about how to implement those principles in particular situations.

In many “moral controversies,” people seem to differ only because they have different *factual* beliefs. For instance, individuals often differ over appropriate actions to protect the environment, not because they have different sets of standards about environmental ethics, but because they hold different factual views about how certain discharges of chemicals and airborne particles will or will not harm the environment. Climate change is a good example (see Chapter 8). A warming climate will cause harm to many people through, for example, droughts in some areas and rising seas in other areas. The vast majority of climate scientists, as well as scientists in related fields, believe that currently

occurring climate change is caused by human greenhouse gas emissions (for example, the use of fossil fuels) and deforestation. However, many politicians claim that the science is inconclusive and that current climate change is a natural phenomenon. This difference in factual beliefs leads to differences about what public policies and business policies should be followed. Identical sets of normative standards may be invoked in their arguments about environmental protection, yet different policies and actions may be recommended.

It is therefore important to distinguish *relativism of judgments* from *relativism of standards*. Differing judgments may rely on the same general standards for their justification. Relativism of judgment is so pervasive in human social life that it would be foolish to deny it. People may differ in their judgments about whether one policy regarding keeping sensitive customer information confidential is more acceptable than another, but it does not follow that they have different moral standards regarding confidentiality. The people may hold the same moral standard(s) on protecting confidentiality but differ over how to implement the standard(s).

However, these observations do not determine whether a relativism of standards provides the most adequate account of morality. If moral conflict did turn out to be a matter of a fundamental conflict of moral *standards*, such conflict could not be removed even if there were perfect agreement about the facts, concepts, and background beliefs of a case. Suppose, then, that disagreement does in fact exist at the deepest level of moral thinking – that is, suppose that two cultures disagree on basic or fundamental norms. It does not follow even from this *relativity of standards* that there is no ultimate norm or set of norms in which everyone *ought* to believe. To see why, consider the following analogy to religious disagreement: From the fact that people have incompatible religious or atheistic beliefs, it does not follow that there is no single correct set of religious or atheistic propositions. Nothing more than skepticism seems justified by the facts about religion that are adduced by anthropology. Similarly, nothing more than such skepticism about the moral standards would be justified if fundamental conflicts of *moral standards* were discovered in ethics.

The evident inconsistency of ethical relativism with many of our most cherished moral beliefs is another reason to be doubtful of it. No general theory of ethical relativism is likely to convince us that a belief is acceptable merely because others believe in it strongly enough, although that is exactly the commitment of this theory. At least some moral views seem relatively more enlightened, no matter how great the variability of beliefs. The idea that practices such as slavery, forced labor, sexual exploitation under severe threat, employment discrimination against women, and grossly inequitable salaries cannot be evaluated across cultures by some common standard seems morally unacceptable, not morally enlightened. It is one thing to suggest that such beliefs might be *excused* (and persons found nonculpable), still another to suggest that they are *right*.

When two parties argue about some serious, divisive, and contested moral issue – for example, conflicts of interest in business – people tend to think that some fair and justified judgment may be reached. People seldom infer from the mere fact of a conflict between beliefs that there is no way to judge one view as correct or as better argued or more reasonable than the other. The more absurd the position advanced by one party, the more convinced others become that some views are mistaken, unreasonable, or require supplementation.

MORAL DISAGREEMENTS

Whether or not ethical relativism is a tenable theory, we must confront the indisputable fact of moral disagreement. In any pluralistic culture many conflicts of value exist. In this volume a number of controversies and dilemmas are examined, including trade-offs between cost-cutting and protecting

workers, blowing the whistle on the unethical or illegal activities of one's company versus company loyalty, deceptive marketing versus lower profits, insider trading, exploitation of labor in sweatshops, and the like. Although disagreements run deep in these controversies, there are ways to resolve them or at least to reduce levels of conflict. Several methods have been employed in the past to deal constructively with moral disagreements, each of which deserves recognition as a method of easing disagreement and conflict.

Obtaining Objective Information. Many moral disagreements can be at least partially resolved by obtaining additional factual information on which moral controversies turn. Earlier it was shown how useful such information can be in trying to ascertain whether cultural variations in belief are fundamental. It has often been assumed that moral disputes are by definition produced solely by differences over moral principles or their application and not by a lack of scientific or factual information. This assumption is misleading inasmuch as moral disputes – that is, disputes over what morally ought or ought not to be done – often have nonmoral elements as their main ingredients. For example, debates over the allocation of tax dollars to prevent accidents or disease in the workplace often become bogged down in factual issues of whether particular measures such as the use of protective masks or lower levels of toxic chemicals actually function better to prevent death and disease.

Another example is provided by the dispute between Greenpeace and Royal Dutch Shell. After lengthy investigation, Royal Dutch Shell proposed to sink a loading and storage buoy for oil deep in the North Sea (off the coast of England). Despite evidence that such an operation posed no environmental danger, Greenpeace conducted protests and even used a group of small boats to thwart the attempt. Royal Dutch Shell yielded to its critics, and the buoy was cut up and made into a quay in Norway. Later, however, Greenpeace came to the conclusion that new facts indicated that there had never been any serious environmental danger. Furthermore, it appears that Greenpeace's recommended method of disposing of the buoy caused environmental harm that would have been avoided by sinking it, as Shell had originally planned.

Controversial issues such as the following are laced with issues of both values and facts: how satisfactorily toxic substances are monitored in the workplace; how a start-up company has "appropriated" an established company's trade secrets; what effects access to pornography through the Internet produces; whether an extension of current copyright laws would reduce sharing of copyrighted recordings on the Internet; and how vaccines for medical use should be manufactured, disseminated, and advertised. The arguments used by disagreeing parties may turn on a dispute about liberty, harm, or justice and therefore may be primarily moral; but they may also rest on factual disagreements over, for example, the effects of a product, service, or activity. Information may thus have only a limited bearing on the resolution of some controversies, yet it may have a direct and almost overpowering influence in others.

Definitional Clarity. Sometimes, controversies have been settled by reaching conceptual or definitional agreement over the language used by disputing parties. Controversies discussed in Chapter 4 about ethical issues regarding diversity and sexual harassment, for example, are often needlessly complicated because different senses of these expressions are employed, and yet disputing parties may have a great deal invested in their particular definitions. If there is no common point of contention in such cases, parties will be addressing entirely separate issues through their conceptual assumptions. Often, these parties will not have a bona fide moral disagreement but, rather, a purely conceptual one.

Although conceptual agreement provides no guarantee that a dispute will be settled, it will facilitate direct discussion of the outstanding issues. For this reason, many essays in this volume dwell at some length on problems of conceptual clarity.

Analysis of Arguments and Positions. Finally, an important method of inquiry is that of exposing the inadequacies in and unexpected consequences of arguments and positions. A moral argument that leads to conclusions that a proponent is not prepared to defend and did not previously anticipate will have to be changed, and the distance between those who disagree will perhaps be reduced by this process. Inconsistencies not only in reasoning but in organizational schemes or pronouncements can be uncovered. However, in a context of controversy, sharp attacks or critiques are unlikely to eventuate in an agreement unless a climate of reason prevails. A fundamental axiom of successful negotiation is “reason and be open to reason.” The axiom holds for moral discussion as well as for any other disagreement.

No contention is made here that moral disagreements can always be resolved or that every reasonable person must accept the same method for approaching disagreement. Many moral problems may not be resolvable by any of the four methods that have been discussed. A single ethical theory or method may never be developed to resolve all disagreements adequately, and the pluralism of cultural beliefs often presents a barrier to the resolution of issues. Given the possibility of continual disagreement, the resolution of cross-cultural conflicts such as those faced by multinational corporations may prove especially elusive. However, if something is to be done about these problems, a resolution seems more likely to occur if the methods outlined in this section are used.

THE PROBLEM OF EGOISM

Attitudes in business have often been deemed fundamentally egoistic. Executives and corporations are said to act purely from prudence – that is, each business is out to promote solely its own interest in a context of competition. Some people say that the corporation has no other interest, because its goal is to be as economically successful in competition as possible.

The philosophical theory called *egoism* has familiar origins. We have all been confronted with occasions on which we must make a choice between spending money on ourselves or on some worthy charitable enterprise. When one elects to purchase new clothes for oneself rather than contribute to famine relief in Africa, one is giving priority to self-interest over the interests of others. Egoism generalizes beyond these occasions to all human choices. The egoist contends that all choices either do involve or should involve self-promotion as their sole objective. Thus, a person’s or a corporation’s goal and perhaps only obligation is self-promotion. No sacrifice or obligation is owed to others.

There are two main varieties of egoism: psychological egoism and ethical egoism. We will discuss each in turn.

Psychological Egoism. Psychological egoism is the view that everyone is always motivated to act in his or her perceived self-interest. This factual theory regarding human motivation offers an *explanation* of human conduct, in contrast with a *justification* of human conduct. It claims that people always do what pleases them or what is in their interest. Popular ways of expressing this viewpoint include the following: “People are at heart selfish, even if they appear to be unselfish”; “People look out for Number One first”; “In the long run, everybody does what he or she wants to do”; and “No matter what a person says, he or she acts for the sake of personal satisfaction.”

If psychological egoism is true it would present a serious challenge to normative moral philosophy. If this theory is correct, there is no purely altruistic moral motivation. Yet, normative ethics appears to presuppose that people ought to behave in accordance with the demands of morality, whether or not such behavior promotes their own interests. If people *must act* in their own interest, to ask them to sacrifice for others would be absurd. Accordingly, if psychological egoism is true, the whole enterprise

of normative ethics is futile. However, psychologists have shown that humans act on a variety of motives.

Those who accept psychological egoism are convinced that their theory of motivation is correct. Conversely, those who reject the theory do so not only because they see many examples of altruistic behavior in the lives of friends, colleagues, saints, heroes, and public servants, but also because contemporary anthropology, psychology, and biology offer some compelling studies of sacrificial behavior. Even if people are basically selfish, critics of egoism maintain that there are at least some compelling examples of preeminently unselfish actions such as corporations that reduce profits to provide services to communities in need (see Chapter 5) and employees who “blow the whistle” on unsafe or otherwise improper business practices even though they could lose their jobs and suffer social ostracism (see Chapter 3).

The defender of psychological egoism is not impressed by the exemplary lives of saints and heroes or by social practices of corporate sacrifice. The psychological egoist maintains that all who expend effort to help others, to promote fairness in competition, to promote the general welfare, or to risk their lives for the welfare of others are, underneath it all, acting to promote themselves. By sacrificing for their children, parents seek the satisfaction that comes from their children’s development or achievements. By following society’s moral and legal codes, people avoid both the police and social ostracism.

Egoists maintain that no matter how self-sacrificing one’s behavior may at times seem, the desire behind the action is self-regarding. One is ultimately out for oneself, whether in the long or the short run, and whether one realizes it or not. Egoists view self-promoting actions as perfectly compatible with behavior that others categorize as altruistic. For example, many corporations have adopted “enlightened self-interest” policies through which they respond to community needs and promote worker satisfaction to promote their corporate image and ultimately their earnings. The clever person or corporation can appear to be unselfish, but the action’s true character depends on the *motivation* behind the appearance. Honest corporate leaders will, in the view of the egoist, emulate General Electric chairman and CEO Jeffery Immelt, who announced GE’s new “ecoimagination” environmental initiative, saying, “we can improve the environment and make money doing it. We see that green is green.”⁹ According to the egoist, apparently altruistic agents who are less honest than Immelt may simply believe that an unselfish appearance best promotes their long-range interests. From the egoist’s point of view, the fact that some (pseudo?) sacrifices may be necessary in the short run does not count against egoism.

Consider the following example. Since the late 1980s, the pharmaceutical company Merck has spent hundreds of millions of dollars to help eradicate diseases such as river blindness (onchocerciasis) and elephantiasis (lymphatic filariasis) in the developing world (see Chapter 5). Partly as a result of these activities, Merck had enjoyed a “sterling reputation” as “the most ethical of the major drug companies.”¹⁰ However, in 2004 Merck’s chairman and CEO, Raymond Gilmartin, was called before the US Senate Finance Committee to testify about his company’s problematic arthritis drug Vioxx (rofecoxib) which was subsequently withdrawn from the market (see Chapter 7). Observers noted that Gilmartin was treated gently – even kindly – by the senators. They attributed the gentle treatment to Merck’s past record of ethical leadership. (This treatment contrasted significantly with the harsh criticism executives at companies involved in the financial crisis of 2008 received from Congress.) From the perspective of egoists, Merck’s efforts at combating diseases in the developing world should be understood entirely as self-interested activity. As evidence of this claim they point to the favorable treatment Merck received by Congress as a direct result of those and other allegedly altruistic activities.

Even if Merck's behavior is best explained as motivated by self-interest, it need not follow that all human behavior can be best explained as motivated by self-interest. The question remains: Is psychological egoism correct? At one level this question can be answered only by empirical data – by looking at the facts. Significantly, there is a large body of evidence both from observations of daily practice and from experiments in psychological laboratories that counts against the universality of egoistic motivation. The evidence from daily practice is not limited to heroic action but includes such mundane practices as voting and leaving tips in restaurants and hotels where a person does not expect to return and has nothing to gain.

It is tempting for the psychological egoist to make the theory *necessarily* true because of the difficulties in proving it to be *empirically* true. When confronted with what look like altruistic acts, egoists may appeal to unconscious motives of self-interest or claim that every act is based on some desire of the person performing the act. For example, the egoist will note that people will feel good after performing allegedly altruistic acts and then claim that it is the desire to feel good that motivated the person in the first place.

The latter explanation seems to be a conceptual or verbal trick: the egoist has changed the meaning of *self-interest*. At first, *self-interest* meant “acting exclusively on behalf of one's own self-serving interest.” Now the word has been redefined to mean “acting on any interest one has.” In other words, the egoist has conceptualized “interest” to always entail self-interested motivation. If psychological egoists are right, we never intend impartially to help a child, loved one, friend, or colleague but only to achieve our own satisfaction. But even if an act brings satisfaction, it does not follow that one was motivated by the goal of satisfaction or intended some form of satisfaction. Finally, notice one other feature about psychological egoism. If it is an accurate description of human nature, then humans are *incapable* of acting out of any interest but self-interest. Principled actions based on motives, such as respect for other persons, the greater good, or justice, are not, in this view, motives humans are capable of acting from.

Ethical Egoism. Ethical egoism is a theory stating that the supreme principle of conduct is to promote one's well-being above everyone else's. Whereas psychological egoism is a *descriptive*, psychological theory about human motivation, ethical egoism is a *normative* theory about what people ought to do. According to psychological egoism, people always *do* act on the basis of perceived self-interest. According to ethical egoism, people always *ought* to act on the basis of self-interest.

Ethical egoism contrasts sharply with common moral beliefs. Consider the maxim “You're a sucker if you don't put yourself first and others second.” This maxim is generally thought morally unacceptable, because morality obligates people to return a lost wallet to an owner and to correct a bank loan officer's errors in their favor. Nevertheless, questions about why people should look out for the interests of others on such occasions have troubled many reflective persons. Some have concluded that acting against one's interest is contrary to reason. These thinkers, who regard conventional morality as tinged with irrational sentiment and indefensible constraints on the individual, are the supporters of ethical egoism. It is not their view that one should always ignore the interests of others but, rather, that one should take account of and act on the interests of others only if it suits one's own interests to do so.

What would society be like if ethical egoism were the conventional, prevailing theory of proper conduct? Some philosophers and political theorists have argued that anarchism and chaos would result unless preventive measures were adopted. A classic statement of this position was made by the philosopher Thomas Hobbes (1588–1679). Imagine a world with limited resources, he said, where persons are approximately equal in their ability to harm one another and where everyone acts exclusively in his or her interest. Hobbes argued that in such a world everyone would be at everyone

else's throat, and society would be plagued by anxiety, violence, and constant danger. As Hobbes declared, life would be "solitary, poor, nasty, brutish, and short."¹¹ However, Hobbes also assumed that human beings are sufficiently rational to recognize their interests. To avoid the war of all against all, he urged his readers to form a powerful government to protect themselves.

Egoists accept Hobbes's view in the following form: Any clever person will realize that she or he has no moral obligations to others besides those obligations she or he voluntarily assumes because it is in one's own interest to agree to abide by them. Each person should accept moral rules and assume specific obligations only when doing so promotes one's self-interest. In agreeing to live under laws of the state that are binding on everyone, one should obey these laws only to protect oneself and to create a situation of communal living that is personally advantageous. One should also back out of an obligation whenever it becomes clear that it is to one's long-range disadvantage to fulfill the obligation. When confronted by a social revolution, the questionable trustworthiness of a colleague, or an incompetent administration at one's place of employment, no one is under an obligation to obey the law, fulfill contracts, or tell the truth. These obligations exist only because one assumes them, and one ought to assume them only as long as doing so promotes one's own interest.

An arrangement whereby everyone acted on more or less fixed rules such as those found in conventional moral and legal systems would produce the most desirable state of affairs for each individual from an egoistic point of view. The reason is that such rules arbitrate conflicts and make social life more agreeable. These rules would include, for example, familiar moral and legal principles of justice that are intended to make everyone's situation more secure and stable.

Only an unduly narrow conception of self-interest, the egoist might argue, leads critics to conclude that the egoist would not willingly observe conventional rules of justice. If society can be structured to resolve personal conflicts through courts and other peaceful means, egoists will view it as in their interest to accept those binding social arrangements, just as they will perceive it as prudent to treat other individuals favorably in personal contexts.

The egoist is not saying that his or her interests are served by promoting the good of others but, rather, is claiming that his or her personal interests are served by observing impartial rules that protect one's interest, irrespective of the outcome for others. Egoists do not care about the welfare of others unless it affects their welfare, and this desire for personal well-being alone motivates acceptance of the conventional rules of morality.

Egoistic Business Practices and Utilitarian Results. A different view from that of Hobbes, and one that has been influential in some parts of the business community, is found in Adam Smith's (1723–90) economic and moral writings. Smith believed that the public good – especially in the commercial world – evolves out of a suitably restrained clash of competing individual interests. As individuals pursue their self-interest, the interactive process is guided by an "invisible hand," ensuring that the public interest is achieved. Ironically, according to Smith, egoism in commercial transactions leads not to the war of all against all but, rather, to a utilitarian outcome – that is, to the largest number of benefits for the largest number of persons. The free market is, Smith thought, a better method of achieving the public good, however inadvertently, than the highly visible hand of Hobbes's all-powerful sovereign state.

Smith believed that government should be limited in order to protect individual freedom. At the same time, he recognized that concern with freedom and self-interest could get out of control. Hence, he proposed that minimal state regulatory activity is needed to provide and enforce the rules of the competitive game. Smith's picture of a restrained egoistic world has captivated many people interested in the business and economic community.¹² They, like Smith, do not picture themselves as selfish and indifferent to the interests of others, and they recognize that a certain element of cooperation is

essential if their interests are to flourish. They recognize that when their interests conflict with the interests of others, they should pursue their interests within the established rules of the competitive game. (Smith was writing about small businesses and privately held companies, since the modern, publicly held corporation did not yet exist.)

Such a restrained egoism is one form of defense of a free-market economy; competition among individual firms advances the utilitarian good of society as a whole. Hence, a popular view of business ethics is captured by the phrase “Ethical egoism leads to utilitarian outcomes.” As Smith said, corporations and individuals pursuing their individual interests thereby promote the public good, so long as they abide by the rules that protect the public.

Some people believe that a contemporary example is found in the way world hunger can be alleviated as a result of capitalistic behavior (see Chapter 9). They claim that capitalistic investment and productivity increase jobs, social welfare, social cooperation, wealth in society, and morally responsible behavior. The thesis is that these benefits accrue widely across the society, affecting both poor and wealthy, even if the goal of capitalists is purely their own economic gain.¹³

Critics of this argument note that although global capitalism can generate significant benefits, the ability to generate many of those benefits presumes that certain regulatory controls are in place in the nations in which business is conducted. At the very least, there must be regulation to ensure that there is a free market. Also, developing nations often lack the framework of laws, policing authorities, and judicial review presumed by Smith. In such circumstances, the unrestrained pursuit of self-interest can result in the exploitation of workers, and environmental practices that are harmful to human welfare and increase rather than decrease poverty. For example, a business may take advantage of the fact that a developing nation has no means of occupational safety enforcement and, to save money, may choose not to put in place standards for protecting workers from injury by exposure to toxic chemicals or poorly maintained machinery.

An important and neglected aspect of Smith’s defense of capitalism is that it was predicated on his theory of ethics.¹⁴ (Smith held the Chair in Moral Philosophy at the University of Glasgow for over ten years.) Egoists typically neglect important features of Smith’s thinking about ethics and human behavior. Smith did argue that *prudence*, or the careful pursuit of one’s self-interest, is a virtue. But he also argued that *benevolence*, or actions directed at the good of others, is an equally important virtue, one that is necessary for social welfare. And he warned against the self-interested partiality in our judgments. A minimal regulatory environment for business was possible without resulting in the anarchy predicted by Hobbes, Smith argued, because of the sympathetic nature of persons and our capacity for benevolence.

1.4 NORMATIVE ETHICAL THEORY

The central question discussed in this section is: What constitutes an acceptable ethical standard for business practice, and by what authority is the standard acceptable? One time-honored answer is that the acceptability of a moral standard is determined by prevailing practices in business or by authoritative, profession-generated documents such as codes. Many business persons find this viewpoint congenial and therefore do not see the need for revisions in practices that they find already comfortable and adequate.

Professional standards do play a role in business ethics and will be discussed in later chapters in this book. Ultimately, however, the internal morality of business does not supply a comprehensive framework for the many pressing questions of business ethics. Morality in the world of business evolves in

the face of social change and critical philosophical argument; it cannot rely entirely on its own historical traditions. Its standards therefore need to be justified in terms of independent ethical standards such as those of public opinion, law, and philosophical ethics – just as the moral norms of a culture need to be justified by more than an appeal to those norms themselves. The following two parts of this section are devoted to two ethical theories that have been particularly influential in moral philosophy: utilitarianism and Kantianism. Some knowledge of these theories is indispensable for reflective study in business ethics, because a sizable part of the field's literature draws on methods and conclusions found in these theories.

UTILITARIAN THEORIES

Utilitarian theories hold that the moral worth of actions or practices is determined by their consequences. An action or practice is right if it leads to the best possible balance of good consequences over bad consequences for all the parties affected. In taking this perspective, utilitarians believe that the purpose or function of ethics is to promote human welfare by minimizing harms and maximizing benefits.

The first developed philosophical writings that made the category of “utility” central in moral philosophy were those of David Hume (1711–76), Jeremy Bentham (1748–1832), and John Stuart Mill (1806–73). Mill's *Utilitarianism* (1863) is still today considered the standard statement of this theory. Mill discusses two foundations or sources of utilitarian thinking: a *normative* foundation in the “principle of utility” and a *psychological* foundation in human nature. He proposes his principle of utility – the “greatest happiness principle” – as the foundation of normative ethical theory. *Actions are right*, Mill says, *in proportion to their tendency to promote happiness or absence of pain, and wrong insofar as they tend to produce pain or displeasure*. According to Mill, pleasure and freedom from pain are alone desirable as ends. All desirable things (which are numerous) are desirable either for the pleasure inherent in them or as means to promote pleasure and prevent pain.

Mill's second foundation derives from his belief that most persons, and perhaps all, have a basic desire for unity and harmony with their fellow human beings. Just as people feel horror at crimes, he says, they have a basic moral sensitivity to the needs of others. Mill sees the purpose of morality as tapping natural human sympathies to benefit others while controlling unsympathetic attitudes that cause harm to others. The principle of utility is conceived as the best means to these basic human goals.

Essential Features of Utilitarianism. Several essential features of utilitarianism are present in the theories of Mill and other utilitarians. First, utilitarianism is committed to the maximization of the good and the minimization of harm and evil. It asserts that society ought always to produce the greatest possible balance of positive value or the minimum balance of disvalue for all persons affected. The means to maximization is efficiency, a goal that persons in business find congenial, because it is highly prized throughout the economic sector. Efficiency is a means to higher profits and lower prices, and the struggle to be maximally profitable seeks to obtain maximum production from limited economic resources. The utilitarian commitment to the principle of optimal productivity through efficiency is, in this regard, an essential part of the traditional business conception of society and a standard part of business practice.

Many businesses, as well as government agencies, have adopted specific tools such as cost–benefit analysis, risk assessment, or management by objectives – all of which are strongly influenced by a utilitarian philosophy. Other businesses do not employ such specific tools but make utilitarian judgments about the benefits and costs of having layoffs, conducting advertising campaigns, hiring lobbyists, paying CEOs, and providing employee benefits. Though unpopular in the short term, many

adjustments are often welcomed because they are directed at long-term financial improvement, favorable government regulation, and job security. In this respect, business harbors a fundamentally utilitarian conception of the goals of its enterprise. Much the same is true of the goals of public policy in many countries.

A second essential feature of the utilitarian theory is a *theory of the good*. Efficiency itself is simply an instrumental good; that is, it is valuable strictly as a means to something else. Even growth and profit maximization are only means to the end of intrinsic goods. But what is “good” according to the utilitarian? An answer to this question can be formed by considering the New York stock market. Daily results on Wall Street are not intrinsically good. They are extrinsically good as a means to other ends, such as financial security and happiness. Utilitarians believe that people ought to orient their lives and frame their goals around conditions that are good in themselves without reference to further consequences. Health, friendship, and freedom from pain are among such values.

However, utilitarians disagree concerning what constitutes the complete range of things or states that are good. Bentham and Mill are hedonists. They believe that only pleasure or happiness (synonymous for the purposes of this discussion) can be intrinsically good. Everything besides pleasure is instrumentally good to the end of pleasure. *Hedonistic* utilitarians, then, believe that any act or practice that maximizes pleasure (when compared with any alternative act or practice) is right. Later utilitarian philosophers have argued that other values besides pleasure possess intrinsic worth, for example, friendship, knowledge, courage, health, and beauty. Utilitarians who believe in multiple intrinsic values are referred to as *pluralistic* utilitarians.

In recent philosophy, economics, and psychology, neither the approach of the hedonists nor that of the pluralists has prevailed. Both approaches have seemed relatively unhelpful for purposes of objectively stating and arraying basic goods. Another and competitive theory appeals to individual preferences. From this perspective, the concept of utility is understood not in terms of states of affairs such as happiness or friendship, but in terms of the satisfaction of individual preferences, as determined by a person’s behavior. In the language of business, utility is measured by a person’s purchases. More generally, utility may be said to be measurable by starting with a person’s actual pursuits. To maximize a person’s utility is to provide that which he or she has chosen or would choose from among the available alternatives. To maximize the utility of all persons affected by an action or a policy is to maximize the utility of the aggregate group.

Although the *preference* utilitarian approach to value has been viewed by many as superior to its predecessors, it is not trouble free as an ethical theory. A major problem arises over morally unacceptable preferences. For example, an airline pilot may prefer to have a few beers before going to work, or an employment officer may prefer to discriminate against women, yet such preferences are morally intolerable. Utilitarianism based purely on subjective preferences is satisfactory, then, only if a range of acceptable preferences can be formulated. This latter task has proved difficult in theory, and it may be inconsistent with a pure preference approach. Should products such as cigarettes, fireworks, heroin, and automatic rifles be legally prohibited because they cause harm, even though many people would prefer to purchase them? How could a preference utilitarian answer this question?

One possible utilitarian response is to ask whether society is better off as a whole when these preferences are prohibited and when the choices of those desiring them are frustrated. If these products work against the larger objectives of utilitarianism (maximal public welfare) by creating unhappiness and pain, the utilitarian could argue that preferences for these products should not be counted in the calculus of preferences. Preferences that serve to frustrate the preferences of others would then be ruled out by the goal of utilitarianism. But would the resulting theory be one entirely based on preferences and only preferences?

A third essential feature of utilitarianism is its commitment to the measurement and comparison of goods. In a hedonistic theory, people must be able to measure pleasurable and painful states and be able to compare one person's pleasures with another's to decide which is greater. Bentham, for example, worked out a measurement device that he called the *hedonic calculus*. He thought he could add the quantitative units of individual pleasure, subtract the units of individual displeasure, and thereby arrive at a total measure of pleasure (or happiness). By the use of this system it is allegedly possible to determine the act or practice that will provide the greatest happiness to the greatest number of people.

When Bentham's hedonic calculus turned out to be of limited practical value, Mill shifted to a criterion that we would today call a panel of experts (persons of requisite experience). Because Mill believed that some pleasures were better or higher order than others, a device was needed to decide which pleasures were in fact better. The experts were designated to fill that role. Subsequently, this idea of Mill's also turned out to be of limited practical value, and notions like that of *consumer choice* were substituted in some utilitarian theories. Consumer behavior, in this conception, can be empirically observed as prices change in the market. If one assumes that consumers seek to rationally order and maximize their preferences, given a set of prices, an objective measurement of utility is possible.

Act and Rule Utilitarianism. Utilitarian moral philosophers are conventionally divided into two types – act utilitarians and rule utilitarians. An *act utilitarian* argues that in all situations one ought to perform that act that leads to the greatest good for the greatest number. The act utilitarian regards rules such as “You ought to tell the truth in making contracts” and “You ought not to manipulate persons through advertising” as useful guidelines but also as expendable in business and other relationships. An act utilitarian would not hesitate to break a moral rule if breaking it would lead to the greatest good for the greatest number in a particular case. *Rule utilitarians*, however, reserve a more significant place for rules, which they do not regard as expendable on grounds that utility is maximized in a particular circumstance.

There are many applications of both types of utilitarianism in business ethics.¹⁵ Consider the following case in which US business practices and standards run up against the quite different practices of the Italian business community. The case involves the tax problems encountered by an Italian subsidiary of a major US bank. In Italy the practices of corporate taxation typically involve elaborate negotiations among hired company representatives and the Italian tax service, and the tax statement initially submitted by a corporation is regarded as a dramatically understated bid intended only as a starting point for the negotiating process. In the case in question, the US manager of the Italian banking subsidiary decided, against the advice of locally experienced lawyers and tax consultants, to ignore the native Italian practices and file a conventional US-style tax statement (that is, one in which the subsidiary's profits for the year were not dramatically understated). His reasons for this decision included his belief that the local customs violated the moral rule of truth telling.¹⁶

An act utilitarian might well take exception to this conclusion. Admittedly, to file an Italian-style tax statement would be to violate a moral rule of truth telling; but the act utilitarian would argue that such a rule is only a guideline and can justifiably be violated to produce the greatest good. In the present case, the greatest good would evidently be done by following the local consultants' advice to conform to Italian practices. Only by following those practices would the appropriate amount of tax be paid. This conclusion is strengthened by the ultimate outcome of the present case: The Italian authorities forced the bank to enter into the customary negotiations, a process in which the original, truthful tax statement was treated as an understated opening bid, and a dramatically excessive tax payment was consequently exacted.

In contrast with the position of act utilitarians, rule utilitarians hold that rules have a central position in morality that cannot be compromised by the demands of particular situations. Compromise threatens the general effectiveness of the rules, the observance of which maximizes social utility. For the rule utilitarian, then, actions are justified by appeal to abstract rules such as “Don’t kill,” “Don’t bribe,” and “Don’t break promises.” These rules, in turn, are justified by an appeal to the principle of utility. The rule utilitarian believes this position can avoid the objections of act utilitarianism, because rules are not subject to change by the demands of individual circumstances. Utilitarian rules are in theory firm and protective of all classes of individuals, just as human rights are rigidly protective of all individuals regardless of social convenience and momentary need.

Act utilitarians have a reply to these criticisms. They argue that there is a third option beyond ignoring rules and strictly obeying them, which is that the rules should be regarded as “rules of thumb” to be obeyed *only sometimes*. In cases in which adhering to the rule of thumb will result in a decline in overall welfare, the rule should be ignored.

Criticisms of Utilitarianism. A major problem for utilitarianism is whether preference units or some other utilitarian value such as happiness can be measured and compared to determine the best action among the alternatives. For example, in deciding whether to open a pristine Alaskan wildlife preserve to oil exploration and drilling, how does one compare the combined value of an increase in the oil supply, jobs, and consumer purchasing power with the value of wildlife preservation and environmental protection? How does a responsible official – at, say, the Bill and Melinda Gates Foundation – decide how to distribute limited funds allocated for charitable contributions (for example, as this foundation has decided, to international vaccination and children’s health programs)? If a corporate social audit (an evaluation of the company’s acts of social responsibility) were attempted, how could the auditor measure and compare a corporation’s ethical assets and liabilities?

The utilitarian reply is that the alleged problem is either a pseudo-problem or a problem that affects all ethical theories. People make crude, rough-and-ready comparisons of values every day, including those of pleasures and dislikes. For example, workers decide to go as a group to a bar rather than have an office party because they think the bar function will satisfy more members of the group. Utilitarians acknowledge that accurate measurements of others’ goods or preferences can seldom be provided because of limited knowledge and time. In everyday affairs such as purchasing supplies, administering business, or making legislative decisions, severely limited knowledge regarding the consequences of one’s actions is often all that is available.

Utilitarianism has also been criticized on the grounds that it ignores nonutilitarian factors that are needed to make moral decisions. The most prominent omission cited is a consideration of justice: the action that produces the greatest balance of value for the greatest number of people may bring about unjustified treatment of a minority. Suppose society decides that the public interest is served by denying health insurance to those testing positive for the AIDS virus. Moreover, in the interest of efficiency, suppose insurance companies are allowed to weed out those covered because they have some characteristics that are statistically associated with an enhanced risk of injury or disease – for example, genetic disorders. Suppose such policies would, on balance, serve the public’s financial interest by lowering insurance costs. Utilitarianism seems to *require* that public law and insurance companies deny coverage to persons with genetic disorders and to many others at higher risk of disease or injury. If so, would not this denial be unjust to those who are at high risk through no fault of their own?

Utilitarians insist, against such criticisms, that all entailed costs and benefits of an action or practice must be weighed, including, for example, the costs that would occur from modifying a statement of basic rights. In a decision that affects employee and consumer safety, for example, the costs often

include protests from labor and consumer groups, public criticism from the press, further alienation of employees from executives, the loss of customers to competitors, and the like. Also, rule utilitarians deny that narrow cost-benefit determinations are acceptable. They argue that general rules of justice (which are themselves justified by broad considerations of utility) ought to constrain particular actions and uses of cost-benefit calculations. Rule utilitarians maintain that the criticisms of utilitarianism previously noted are shortsighted because they focus on injustices that might be caused through a superficial or short-term application of the principle of utility. In a long-range view, utilitarians argue, promoting utility does not eventuate in overall unjust outcomes.

KANTIAN ETHICS

CNN reported that online shoppers who visited the Internet auction site eBay were surprised to find a “fully functional kidney” for sale by a man giving his home as “Sunrise, Florida.” He was proposing to sell one of his two kidneys. The price had been bid up to more than \$5.7 million before eBay intervened and terminated the (illegal) auction.¹⁷ Although it was never determined whether this auction was genuine, it is known that kidneys are for sale in some parts of Asia, notably India. One study showed, after locating 305 sellers, that Indians who sold their kidneys actually worsened rather than bettered their financial position as a result of the sale; the study also showed that some men forced their wives to sell a kidney and that many sellers suffered a permanent decline in health.¹⁸ Irrespective of the consequences of a kidney sale, many people look with moral indignation on the idea of selling a kidney, whether in the United States or in India.¹⁹ They see it as wrongful exploitation, rather than opportunity, and they don’t care whether it has strong utilitarian benefits for society. What is it about selling a kidney that provokes this sense of moral unfairness, and can a moral theory capture the perceived wrongness?

Kantian Respect for Persons. Many have thought that Immanuel Kant’s (1724–1804) ethical theory helps clarify the basis of such moral concern as well as what should be done about it. A follower of Kant could argue that using human organs as commodities is to treat human beings as though they were merely machines or capital, and so to deny people the respect appropriate to their dignity as rational human beings. Kant argued that persons should be treated as ends and never purely as means to the ends of others. That is, failure to respect persons is to treat another as a means in accordance with one’s *own* ends, and thus as if they were not independent agents. To exhibit a lack of respect for a person is either to reject the person’s considered judgments, to ignore the person’s concerns and needs, or to deny the person the liberty to act on those judgments. For example, manipulative advertising that attempts to make sales by interfering with the potential buyer’s reflective choice violates the principle of respect for persons. In the case of kidney sales, almost all sellers are in desperate poverty and desperate need. Potentially all organ “donations” will come from the poor while the rich avoid donating their kidneys even to their relatives. In effect, the organ is treated as a commodity and the owner of the organ as merely a means to a purchaser’s ends.

In Kantian theories, respect for the human being is said to be necessary – not just as an option or at one’s discretion – because human beings possess a moral dignity and therefore should not be treated as if they had merely the conditional value possessed by machinery, industrial plants, robots, and capital. This idea of “respect for persons” has sometimes been expressed in corporate contexts as “respect for the individual.”

An example in business ethics is found in the practices of Southwest Airlines, which has the reputation of treating its employees and customers with unusual respect. Employees report that they feel free to express themselves as individuals and that they feel a strong loyalty to the airline.

Following the terrorist attacks of September 11, 2001, Southwest was the only airline that did not lay off employees or reduce its flight schedule. As a consequence, some employees offered to work overtime, without pay, to save the company money until people resumed flying.²⁰ The firm prides itself on a relationship with all stakeholders that is a relationship of persons, rather than simply a relationship of economic transactions.

Another example is found at Motorola, where respect for individual persons is one of the “key beliefs” that has served as a foundation for their Code of Conduct for decades. As understood by Motorola, “Constant respect for people means we treat everyone with dignity, as we would like to be treated ourselves. Constant respect applies to every individual we interact with around the world.”²¹ The Motorola Code of Conduct specifies how this principle should be applied to “Motorolans,” customers, business partners, shareholders, competitors, communities, and governments. All employees at Motorola are evaluated, in part, on the extent to which they demonstrate respect for each of these stakeholders.

Some have interpreted Kant to hold categorically that people can never treat other persons as a means to their ends. This interpretation is mistaken. Kant did not categorically prohibit the use of persons as means to the ends of other people. He argued only that people must not treat another *exclusively* as a means to their ends. An example is found in circumstances in which employees are ordered to perform odious tasks. Clearly, they are being treated as a means to an employer’s or a supervisor’s ends, but the employees are not exclusively used for others’ purposes because they are not mere servants or objects. In an economic exchange, suppose that Jones is using Smith to achieve her end, but similarly Smith is using Jones to achieve her end. So long as the exchange is freely entered into without coercion or deception by either party, neither party has used the other merely for her end. Thus even in a hierarchical organization an employer can be the boss without exploiting the employee, so long as the employee freely entered into that relationship. The key to not using others merely as a means is to respect their dignity.

This interpretation suggests that the example of the kidney sale does not necessarily show any disrespect for persons. Kant seems to require only that each individual *will the acceptance* of those principles on which he or she is acting. If a person freely accepts a certain form of action and it is not intrinsically immoral, that person is a free being and has a right to so choose. Selling a kidney might fall into this category. It is conceivable, for example, that if as a condition of the exchange, kidney sellers were guaranteed first-rate medical care for the rest of their lives to help prevent sickness and death from complications related to transplant surgery, purchasing a kidney might be regarded as permissible.²² However, because kidney sellers are seldom provided with such care, they develop serious medical complications and their lifespan is often reduced as a result. In this way they are literally regarded as disposable. It is this judgment that informs the assessment some Kantians make today that unregulated kidney sales are immoral.

Respecting others does not merely entail a negative obligation to refrain from treating others as mere objects; it also entails positive obligations to help ensure the development of rational and moral capacities. For example, some Kantians argue today that employers of low-skill workers in the developing world have obligations to ensure that the workers enjoy sufficient free time and the wages to develop their capacities to function as moral agents. Accordingly, workers who are paid more than they would make if they were living on the street, but not enough to live decent human lives, are treated with impermissible disrespect.

Kant’s theory finds *motives* for actions to be of the highest importance, in that it expects persons to make the right decisions *for the right reasons*. If persons are honest only because they believe that honesty pays, their “honesty” is cheapened. It seems like no honesty at all, only an action that appears

to be honest. For example, when corporate executives announce that the reason they made the morally correct decision was because it was good for their business, this reason seems to have nothing to do with morality. According to Kantian thinking, if a corporation does the right thing only when (and for the reason that) it is profitable or when it will enjoy good publicity, its decision is prudential, not moral.

Consider the following three examples of three people making personal sacrifices to raise money to help pay for a cancer-stricken co-worker to receive an extremely expensive new drug therapy that is not covered by health insurance. Fred makes the sacrifices only because he fears the criticism that would result if he failed to do so. He hates doing it and secretly resents being involved. Sam, by contrast, derives no personal satisfaction from helping raise money. He would rather be doing other things and makes the sacrifice purely from a sense of obligation. Bill, by contrast, is a kindhearted person. He does not view his actions as a sacrifice and is motivated by the satisfaction that comes from helping others. Assume in these three cases that the consequences of all the sacrificial actions are equally good and that the co-worker receives the drug therapy, as each agent intends. The question to consider is which persons are behaving in a morally praiseworthy manner. If utilitarian theory is used, this question may be hard to answer, especially if act utilitarianism is the theory in question, because the good consequences in each case are identical. The Kantian believes, however, that motives – in particular, motives of moral obligation – count substantially in moral evaluation.

It appears that Fred's motives are not moral motives but motives of prudence that spring from fear. Although his actions have good consequences, Fred does not deserve any moral credit for his acts because they are not morally motivated. To recognize the prudential basis of an action does not detract from the goodness of any consequences it may have. Given the purpose or function of the business enterprise, a motive of self-interest may be the most appropriate motive to ensure good consequences. The point, however, is that a business executive derives no special moral credit for acting in the corporate self-interest, even if society is benefited by and satisfied with the action.

If Fred's motive is not moral, what about Bill's and Sam's? Here moral philosophers disagree. Kant maintained that moral action must be motivated by a maxim (rule) of moral obligation. From this perspective, Sam is the only individual whose actions may be appropriately described as moral. Bill deserves no more credit than Fred, because Bill is motivated by the emotions of sympathy and compassion, not by obligation. Bill is naturally kindhearted and has been well socialized by his family, but this motivation merits no moral praise from a Kantian, who believes that actions motivated by self-interest alone or compassion alone cannot be morally praiseworthy. To be deserving of moral praise, a person must act from obligation.

To elaborate this point, Kant insisted that all persons must act for the *sake of* obligation – not merely *in accordance with* obligation. That is, the person's motive for action must involve a recognition of the duty to act. Kant tried to establish the ultimate basis for the validity of rules of obligation in pure reason, not in intuition, conscience, utility, or compassion. Morality provides a rational framework of principles and rules that constrain and guide all people, independent of their personal goals and preferences. He believed that all considerations of utility and self-interest are secondary, because the moral worth of an agent's action depends exclusively on the moral acceptability of the rule according to which the person is acting.

An action has moral worth only if performed by an agent who possesses what Kant called a "good will." A person has a good will only if the motive for action is moral obligation, as determined by a universal rule of obligation. Kant developed this notion into a fundamental moral law: "I ought never to act except in such a way that I can also will that my maxim should become a universal law." Kant called this principle the *categorical imperative*. It is categorical because it admits of no exceptions

and is absolutely binding. It is imperative because it gives instruction about how one must act. He gave several examples of imperative moral maxims: “Help others in distress,” “Do not commit suicide,” and “Work to develop your abilities.”

Universalizability. Kant’s strategy was to show that the acceptance of certain kinds of action is self-defeating, because *universal* participation in such behavior undermines the action. Some of the clearest cases involve persons who make a unique exception for themselves for purely selfish reasons. Suppose a person considers breaking a promise to a co-worker that would be inconvenient to keep. According to Kant, the person must first formulate her or his reason as a universal rule. The rule would say, “Everyone should break a promise whenever keeping it is inconvenient.” Such a rule is contradictory, Kant held, because if it were consistently recommended that all individuals should break their promises when it was convenient for them to do so, the practice of making promises would be senseless. Given the nature of a promise, a rule allowing people to break promises when it becomes convenient makes the institution of promise-making unintelligible. A rule that allows cheating on an exam similarly negates the purpose of testing.

Kant’s belief was that the conduct stipulated in these rules could not be made universal without the emergence of some form of contradiction. During the run-up to the US housing bubble, Beazer Homes USA used deceptive and illegal lending practices to sell more houses to consumers who could not afford the mortgages. Beazer eventually settled with the US Justice Department and agreed to pay \$50 million in restitution and its CEO agreed to return \$6.5 million in compensation and tens of thousands of shares of the company.²³ In this example, the company made an exception of itself by engaging in predatory lending, thereby cheating the system, which is established by certain lending rules that help ensure most borrowers can pay back their loans. This conduct, if carried out by other corporations, violates the rules presupposed by the system, thereby rendering the system inconsistent. Because many companies *did* engage in predatory lending practices and passed on bad loans to other investors, a housing bubble was created and eventually burst, undermining the global financial system and causing massive hardship. Kant’s point was not that such practices lead to bad consequences, although they often do, but that such conduct constitutes making an unfair exception of oneself. Kant’s view was that actions involving invasion of privacy, theft, line cutting, cheating, kick-backs, bribes, and the like are contradictory in that they are not consistent with the institutions or practices they presuppose.

Criticisms of Kantianism. Despite Kant’s contributions to moral philosophy, his theories have been criticized as narrow and inadequate to handle various problems in the moral life. He had little to say regarding moral emotions or sentiments such as sympathy and caring. Some people also think that Kant emphasized universal obligations (obligations common to all people) at the expense of particular obligations (obligations that fall only on those in particular relationships or who occupy certain roles, such as those of a business manager). Whereas the obligation to keep a promise is a universal obligation, the obligation to grade students fairly falls only on teachers responsible for submitting grades.

Many managerial obligations result from special roles played in business. For example, business persons tend to treat customers according to the history of their relationship. If a person is a regular customer and the merchandise being sold is in short supply, the regular customer will be given preferential treatment because a relationship of commitment and trust has already been established. Japanese business practice has conventionally extended this notion to relations with suppliers and employees: after a trial period, the regular employee has a job for life at many firms. Also, the bidding system is used less frequently in Japan than in the West. Once a supplier has a history with a firm, the firm is loyal to its supplier, and each trusts the other not to exploit the relationship.

However, particular obligations and special relationships may not be inconsistent with Kantianism, because they may not violate any universal ethical norms. Although Kant wrote little about such particular duties, he would agree that a complete explanation of moral agency in terms of duty requires an account of *both* universal *and* particular duties.

A related aspect of Kant's ethical theory that has been scrutinized by philosophers is his view that moral motivation involves *impartial* principles. Impartial motivation may be distinguished from the motivation that a person might have for treating a second person in a certain way because the first person has a particular interest in the well-being of the second person (a spouse or valued customer, for example). A conventional interpretation of Kant's work suggests that if conflicts arise between one's obligation and one's other motivations – such as friendship, reciprocation, or love – the motive of obligation should always prevail. In arguing against this moral view, critics maintain that persons are entitled to show favoritism to their loved ones. This criticism suggests that Kantianism (and utilitarianism as well) has too broadly cast the requirement of impartiality and does not adequately account for those parts of the moral life involving partial, intimate, and special relationships.

Special relationships with a unique history are often recognized in business. For instance, the Unocal Corporation sharply criticized its principal bank, Security Pacific Corporation, for knowingly making loans of \$185 million to a group that intended to use the money to buy shares in Unocal for a hostile takeover. Fred Hartley, chairman and president of Unocal, argued that the banks and investment bankers were “playing both sides of the game.” Hartley said that Security Pacific had promised him that it would not finance such takeover attempts three months before doing so and that it had acted under conditions “in which the bank [has] continually received [for the last 40 years] confidential financial, geological, and engineering information from the company.”²⁴ A 40-year history in which the bank stockpiled confidential information should not simply be cast aside for larger goals. Security Pacific had violated a special relationship it had with Unocal.

Nonetheless, impartiality seems at some level an irreplaceable moral concept, and ethical theory should recognize its centrality in many business relationships. The essence of rules governing banks – to the extent explicit rules exist – is that banks can lend money to insiders if and only if insiders are treated exactly as outsiders are treated. Here the rule of impartiality is an essential moral constraint. By contrast, 75 percent of America's 1,500 largest corporations made insider loans strictly on the basis of partiality; most loans were made for stock purchases. This partiality massively backfired in 2000–2003, and many companies had to “forgive” or “pardon” the loans and charge off millions of dollars. Loans at Tyco, Lucent, Mattel, Microsoft, and Webvan became famous cases.²⁵ For example, WorldCom loaned then-CEO Bernie Ebbers \$160 million for his personal “stock purchase/retention.” And Anglo Irish Bank CEO Sean Fitzpatrick resigned suddenly in 2008 after it was revealed that he authorized £150 million in loans to himself and other insiders, most of which he hid from auditors.²⁶ The bank was subsequently nationalized.

The need for impartiality is also important in healthcare, especially because of the efforts of the pharmaceutical and medical device industry to influence physician behavior. Medical professionals who are paid large sums by industry for consulting and other services have been criticized for failing to provide care that is in the best interest of patients because of their financial ties to drug and device companies (see Chapter 7). Recently the Cleveland Clinic, a leading medical center, began electronically publishing all of its physicians' and researchers' financial ties to industry in an effort to emphasize the importance of impartial medical advice.²⁷

Corporate America continues to suffer from major business scandals, many of which end in the criminal prosecution of corporate executives and the dissolution of the company. Violations of the demand for impartiality and fair dealing are virtually always present in these scandals. Here are three

examples. First, in a notorious case, the accounting firm of Arthur Andersen had such a close and partial relationship with its client Enron that it could not perform an objective audit of the firm. Enron was treated with a deference, partiality, and favoritism that contrasted sharply with the auditing of other firms, who were treated with the conventional impartiality expected of an auditing firm. Second, executives at many US companies have been discovered to be “backdating” their stock options. *Backdating* is the practice of looking back in time for the date on which one’s company stock price was at its lowest and granting the purchase on that date. Typically this is done when the stock value is much higher so that the executive can immediately cash in the stock and make a substantial profit. For example, the former CEO of Take-Two Interactive Software Inc., the maker of the video game “Grand Theft Auto,” pleaded guilty to granting undisclosed, backdated options to himself and others.²⁸ More than 80 companies have revealed that they are investigating instances of backdating as a result of prompting from regulators and internal audit committees. Third, many knowledgeable observers believe that the recent financial crisis that resulted from the collapse of the housing bubble in the United States was partly due to the cozy relationship between credit rating agencies and the investment banks whose products they were supposed to be objectively evaluating on behalf of investors. The credit rating agencies gave their highest-grade investment ratings to investment bank products that were toxic, all the while receiving fees from the banks for their services.

Unfair treatment does not only take place among executives. An assistant restaurant manager in charge of scheduling can unfairly give her friends on the staff the best shifts, rather than the most competent waiters or cooks. And a retail manager can unfairly enforce rules (for example, no personal calls while at work) by allowing favorite employees to break the rule while enforcing the rule on other employees.

CONTEMPORARY TRENDS IN ETHICAL THEORY

Thus far only utilitarian and Kantian theories have been examined. Both meld a variety of moral considerations into a surprisingly systematized framework, centered around a single major principle. Much is attractive in these theories, and they were the dominant models in ethical theory throughout much of the twentieth century. In fact they have sometimes been presented as the only types of ethical theory, as if there were no available alternatives from which to choose. However, much recent philosophical writing has focused on defects in these theories and on ways in which the two theories actually affirm a similar conception of the moral life oriented around universal principles and rules.

These critics promote alternatives to the utilitarian and Kantian models. They believe that “master principle theories” do not merit the attention they have received and the lofty position they have occupied. Three popular replacements for, or perhaps supplements to, Kantian and utilitarian theories are (1) rights theories (which are based on human rights); (2) virtue theories (which are based on character traits); and (3) common morality theories (which are generally obligation-based). These theories are the topics of the next three sections.

Each of these three types of theories has treated some problems well and has supplied insights not found in utilitarian and Kantian theories. Although it may seem as if there is an endless array of disagreements across the theories, these theories are not in all respects competitive, and in some ways they are even complementary. The reader may profitably look for convergent insights in these theories.

RIGHTS THEORIES

Terms from moral discourse such as *value*, *goal*, and *obligation* have thus far in this chapter dominated the discussion. *Principles* and *rules* in Kantian and utilitarian theories have been

understood as statements of obligation. Yet, many assertions that will be encountered throughout this volume are claims to rights, and public policy issues often concern rights or attempts to secure rights. Many current controversies in professional ethics, business, and public policy involve the rights to property, work, privacy, a healthy environment, and the like. This section presents theories that give rights a distinctive character in ethical theory and yet allow rights to be connected to the obligations that we have previously examined.

In recent years, public discussions about moral protections for persons vulnerable to abuse, enslavement, or neglect have typically been stated in terms of rights. Many believe that these rights transcend national boundaries and particular governments. For example, we have seen several controversies over exploitative labor conditions in factories (so-called sweatshop conditions) that manufacture products for Nike, Reebok, Abercrombie and Fitch, Target, Gap, J. C. Penney, Liz Claiborne, L.L.Bean, Walmart, Apple, Microsoft, Sony, Dell, and many other companies. At stake are the human rights of millions of workers around the globe, including rights to safe working conditions, payment of all legally required wages, protections against mandated overtime work, collective bargaining agreements, codes of conduct for industries, open-factory inspections, and new monitoring systems.²⁹ In addition, activists have urged that American companies not do business in countries that have a record of extensive violation of human rights. China, Nigeria, and Myanmar have all come under severe criticism. (These issues, and others surrounding violations of human rights in sweatshops, are discussed in Chapter 9.)

Unlike legal rights, human rights are held independently of membership in a state or other social organization. Historically, human rights evolved from the notion of natural rights. As formulated by John Locke and others in early modern philosophy, natural rights are claims that individuals have against the state. If the state does not honor these rights, its legitimacy is in question. Natural rights were thought to consist primarily of rights to be free of interference, or liberty rights. Proclamations of rights to life, liberty, property, a speedy trial, and the pursuit of happiness subsequently formed the core of major Western political and legal documents. These rights came to be understood as powerful assertions demanding respect and status.

A number of influential philosophers have maintained that ethical theory or some part of it must be “rights-based.”³⁰ They seek to ground ethical theory in an account of rights that is not reducible to a theory of obligations or virtues. Consider a theory to be discussed in Chapter 10 that takes liberty rights to be basic. One representative of this theory, Robert Nozick, refers to his social philosophy as an “entitlement theory.” The appropriateness of that description is apparent from this provocative line with which his book begins: “Individuals have rights, and there are things no person or group may do to them (without violating their rights).” Nozick grounds this right in Kant’s arguments regarding respect for persons. Starting from this assumption, Nozick builds a political theory in which government action is justified only if it protects the fundamental rights of its citizens.

This political theory is also an ethical theory. Nozick takes the following moral rule to be basic: All persons have a right to be left free to do as they choose. The moral obligation not to interfere with a person follows from this right. That the obligation *follows* from the right is a clear indication of the priority of rights over obligations; that is, in this theory the obligation is derived from the right, not the other way around.

Many rights-based theories hold that rights form the justifying basis of obligations because they best express the purpose of morality, which is the securing of liberties or other benefits for a right-holder.³¹ However, few rights-based theories *deny* the importance of obligations (or duties), which they regard as central to morality. They make this point by holding that there is a correlativity between obligations and rights: “X has a right to do or to have Y” means that the moral system of rules (or the

legal system, if appropriate) imposes an obligation on someone to act or to refrain from acting so that *X* is enabled to do or have *Y*.³²

These obligations are of two types: *negative obligations* are those that require that we not interfere with the liberty of others (thus securing liberty rights); *positive obligations* require that certain people or institutions provide benefits or services (thus securing benefit rights or welfare rights).³³ Correlatively, a *negative right* is a valid claim to liberty, that is, a right not to be interfered with, and a *positive right* is a valid claim on goods or services. The rights not to be beaten, subjected to unwanted surgery, or sold into slavery are examples of negative or liberty rights. Rights to food, medical care, and insurance are examples of positive or benefit rights.

The right to liberty is here said to be “negative” because no one has to act to honor it. Presumably, all that must be done is to leave people alone. The same is not true regarding positive rights; to honor these rights, someone has to provide something. For example, if a starving person has a human right to well-being, someone has an obligation to provide that person with food. As has often been pointed out, positive rights place an obligation to provide something on others, who can respond that this requirement interferes with their property rights to use their resources for their chosen ends. The distinction between positive and negative rights has often led those who would include various rights to well-being (to food, housing, healthcare, etc.) on the list of human rights to argue that the obligation to provide for positive rights falls on the political state. This distinction has intuitive appeal to many business persons, because they wish to limit both the responsibilities of their firms and the number of rights conflicts they must address. This point has recently become more compelling in light of the rise of theories of justice that address global poverty. Assuming, as the United Nations does, that humans have a fundamental right to have access to basic goods including housing, food, and healthcare, it can be argued that ensuring these rights to basic goods requires that coercive institutions such as governments, the World Health Organization, and the World Bank be designed to guarantee these rights to everyone.

A conflict involving negative rights is illustrated by the debate surrounding attempts by employers to control the lifestyle of their employees. Some employers will not accept employees who smoke. Some will not permit employees to engage in dangerous activities such as skydiving, auto racing, or mountain climbing. By making these rules, one can argue that employers are violating the liberty rights of the employees as well as the employees’ right to privacy. Conversely, the employer can argue that he or she has a right to run the business as he or she sees fit. Thus, both sides invoke negative rights to make a moral case.

Theories of moral rights have not traditionally been a major focus of business ethics, but this situation is changing at present. For example, employees traditionally could be fired for what superiors considered disloyal conduct, and employees have had no right to “blow the whistle” on corporate misconduct. When members of minority groups complain about discriminatory hiring practices that violate their human dignity and self-respect, one plausible interpretation of these complaints is that those who register them believe that their moral rights are being infringed. Current theories of employee, consumer, and stockholder rights all provide frameworks for debates about rights within business ethics.

The language of moral rights is greeted by some with skepticism because of the apparently absurd proliferation of rights and the conflict among diverse claims to rights (especially in recent political debates). For example, some parties claim that a pregnant woman has a right to have an abortion, whereas others claim that fetuses have a right to life that precludes the right to have an abortion. As we shall see throughout this volume, rights language has been extended to include such controversial rights as the right to financial privacy, rights of workers to obtain various forms of information about

their employer, the right to work in a pollution-free environment, the right to hold a job, and the right to healthcare.

Many writers in ethics now agree that a person can legitimately exercise a right to something only if sufficient justification exists – that is, when a right has an overriding status. Rights such as a right to equal economic opportunity, a right to do with one's property as one wishes, and a right to be saved from starvation may have to compete with other rights. The fact that rights theorists have failed to provide a hierarchy for rights claims may indicate that rights, like obligations, are not absolute moral demands but rather ones that can be overridden in particular circumstances by more stringent competing moral claims.

The idea of grounding duties or obligations in correlative rights is attractive to managers of many large global corporations because it provides a transcultural and transnational set of ethical norms that apply in all nations and can be used as the basis for uniform global corporate policies. For example, pharmaceutical companies that conduct research with human subjects in 30 countries would like to be able to apply the same moral rules in all 30 countries. Otherwise, chaos and inconsistency constantly threaten.

Because of this interest in human rights on the part of many global managers, but also because of vocal critics of some global business activities, the United Nations Human Rights Council approved Guiding Principles on Business and Human Rights in 2011. These principles are intended to provide a global standard for identifying the human rights responsibilities of businesses (see Chapter 9).

VIRTUE ETHICS

Virtue ethics descends from the classical Hellenistic tradition represented by Plato and Aristotle, in which the cultivation of a virtuous character is viewed as morality's primary function. Aristotle held that virtue is neither a feeling nor an innate capacity but a disposition bred from an innate capacity properly trained and exercised. People acquire virtues much as they do skills such as carpentry, playing a musical instrument, or cooking. They become just by performing just actions and become temperate by performing temperate actions. Virtuous character, says Aristotle, is neither natural nor unnatural; it is cultivated and made a part of the individual, much like a language or tradition.

But an ethics of virtue is more than habitual training. This approach relies even more than does Kant's theory on the importance of having a correct *motivational structure*. A just person, for example, has not only a psychological disposition to act fairly but also a morally appropriate desire to act justly. The person characteristically has a moral concern and reservation about acting in a way that would be unfair. Having only the motive to act in accordance with a rule of obligation (Kant's only demand) is not morally sufficient for virtue. Imagine a person who always performs his or her obligation because it is an obligation but who intensely dislikes having to allow the interests of others to be taken into account. Such a person does not cherish, feel congenial toward, or think fondly of others, and this person respects others only because obligation requires it. This person can, nonetheless, on a theory of moral obligation such as Kant's or Mill's, perform a morally right action, have an ingrained disposition to perform that action, and act with obligation as the foremost motive. The virtue theorist's criticism is that if the desire is not right, a necessary condition of virtue is lacking.

Consider an encounter you might have with a tire salesperson. You tell the salesperson that safety is most important and that you want to be sure to get an all-weather tire. He listens carefully and then sells you exactly what you want, because he has been well trained by his manager to see his primary obligation as that of meeting the customer's needs. Acting in this way has been deeply ingrained in this salesperson by his manager's training. There is no more typical encounter in the world of retail sales

than this one. However, suppose now that we go behind the salesperson's behavior to his underlying motives and desires. We find that this man detests his job and hates having to spend time with every customer who comes through the door. He cares not at all about being of service to people or creating a better environment in the office. All he really wants is to watch the television set in the waiting lounge and to pick up his paycheck. Although this man meets his moral obligations, something in his character is morally defective.

When people engage in business or take jobs simply for the profit or wages that will result, they may meet their obligations and yet not be engaged in their work in a morally appropriate manner. However, if persons start a business because they believe in a quality product – a new, healthier and environmentally friendly food, for example – and deeply desire to sell that product, their character is more in tune with our moral expectations. Entrepreneurs often exhibit this enthusiasm and commitment. The practice of business is morally better if it is sustained by persons whose character manifests enthusiasm, truthfulness, compassion, respectfulness, and patience. Of course, the ability of employees to exhibit these virtues depends on the ability and desire of senior managers to cultivate an appropriate organizational culture. Employees who work in “sweatshop” conditions or with unscrupulous managers who demand sales above all other considerations are unlikely to be able to cultivate such virtues.

Interesting discussions in business ethics now center on the appropriate virtues of managers, employees, and other participants in business activity, as will be seen many times in this book. Among the many virtues that have been discussed are integrity, truthfulness, courage, and compassion. However, some alleged “virtues” of business life have been sharply contested in recent years, and various “virtues” of the business person have seemed not to be *moral* virtues at all. Competitiveness and toughness are two examples. *Fortune* has long published a list of the toughest bosses. For many years before he was fired as CEO of Sunbeam, Al Dunlap was perennially on the list. He had earned the nickname “Chainsaw Al” for his propensity to fire people and shut down plants even when they were marginally profitable. Dunlap made stock price and profitability the only worthy goals of a business enterprise. In his case business toughness was eventually judged a moral vice. This example suggests that some alleged business virtues may not turn out to be virtues at all.

There is another reason why virtue ethics may be important for business ethics. A morally good person with the right desires or motivations is more likely to understand what should be done, more likely to be motivated to perform required acts, and more likely to form and act on moral ideals than would a morally bad person. A person who is ordinarily trusted is one who has an ingrained motivation and desire to perform right actions and who characteristically cares about morally appropriate responses. A person who simply follows rules of obligation and who otherwise exhibits no special moral character may not be trustworthy. It is not the rule follower but the person disposed by character to be generous, caring, compassionate, sympathetic, and fair who should be the one recommended, admired, praised, and held up as a moral model. Many experienced business persons say that such trust is the moral cement of the business world.

Furthermore, studies indicate that for employees to take corporate ethics policies seriously, they need to perceive executives both as personally virtuous and as consistent enforcers of ethics policies throughout the organization.³⁴

COMMON MORALITY THEORIES

Finally, the view that there is a common morality that all people share by virtue of communal life, and that this morality is ultimately the source of all theories of morality, is known as *common morality*

theory. This view is especially influential in contemporary biomedical ethics, an area of applied ethics that shares many topics of concern with business ethics.³⁵ According to this approach, virtually all people in all cultures grow up with an understanding of the basic demands of morality. Its norms are familiar and unobjectionable to those deeply committed to a moral life. They know not to lie, not to steal, to keep promises, to honor the rights of others, not to kill or cause harm to innocent persons, and the like. The common morality is simply the set of norms shared by all persons who are seriously committed to the objectives of morality. This morality is not merely *a* morality that differs from *other* moralities.³⁶ It is applicable to all persons in all places, and all human conduct is rightly judged by its standards.

The following are examples of *standards of action* (rules of obligation) in the common morality: (1) “Don’t kill,” (2) “Don’t cause pain or suffering to others,” (3) “Prevent evil or harm from occurring,” and (4) “Tell the truth.” There are also many examples of *moral character traits* (virtues) recognized in the common morality, including (1) nonmalevolence, (2) honesty, (3) integrity, and (4) conscientiousness. These virtues are universally admired traits of character, and a person is regarded as deficient in moral character if he or she lacks such traits.

The thesis that there are universal moral standards is rooted in (1) a theory of the objectives of the social institution of morality and (2) a hypothesis about the sorts of norms that are required to achieve those objectives. Philosophers such as Thomas Hobbes and David Hume pointed out that centuries of experience demonstrate that the human condition tends to deteriorate into misery, confusion, violence, and distrust unless norms such as those listed earlier – the norms of the common morality – are observed. These norms prevent or minimize the threat of social deterioration.

It would be an overstatement to maintain that these norms are necessary for the *survival* of a society (as various philosophers and social scientists have maintained),³⁷ but it is not too much to claim that these norms are necessary to *ameliorate or counteract the tendency for the quality of people’s lives to worsen or for social relationships to disintegrate*.³⁸ In every well-functioning society norms are in place to prohibit lying, breaking promises, causing bodily harm, stealing, committing fraud, taking of life, neglecting children, failing to keep contracts, and the like.³⁹ These norms are what they are, and not some other set of norms, because they have proven that they successfully achieve the objectives of morality. This success in the service of human flourishing accounts for their moral authority, and there is no more basic explanation of or justification for their moral authority. Thus, defenders of common morality maintain that there is no philosophical ethical theory that uproots or takes priority over the common morality; indeed, all *philosophical* theories start out from an understanding of the common morality and build a theory on top of this understanding.

These theories do not assume that every person accepts the norms in the common morality. It would be implausible to maintain that all persons in all societies do in fact accept moral norms. Unanimity is not the issue. Many amoral, immoral, or selectively moral persons do not care about or identify with various demands of the common morality. Some persons are morally weak; others are morally depraved. It would also be implausible to hold that a *customary* set of norms or a *consensus* set of norms in a society qualifies, as such, for inclusion in the *common* morality. The notion that moral justification is ultimately grounded in the customs and consensus agreements of particular groups is a moral travesty. Any given society’s customary or consensus position may be a distorted outlook that functions to block awareness of common morality requirements. Some societies are in the influential grip of leaders who promote religious zealotries or political ideologies that depart profoundly from the common morality.

From the perspective of those who emphasize the common morality, only universally valid norms warrant our making intercultural and cross-cultural judgments about moral depravity, morally

misguided beliefs, savage cruelty, and other moral failures. If we did not have recourse to universal norms, we could not make basic distinctions between moral and immoral behavior and therefore could not be positioned to criticize even outrageous human actions, some of which are themselves proclaimed in the name of morality. This takes us to the subject of how *particular* moralities are viewed in common morality theories.

Many justifiable moral norms are particular to cultures, groups, and even individuals. The common morality contains only general moral standards. Its norms are abstract, universal, and content thin. Particular moralities tend to be the reverse: concrete, nonuniversal, and content rich. These moralities may contain norms that are often comprehensive and detailed. Business ethics, and indeed all professional ethics, are examples of particular moralities. Many examples are found in codes of professional practice, institutional codes of ethics, government regulations, and the like.

Business ethics is fundamentally an attempt to make the moral life specific and practical. The reason why the norms of business ethics in particular cultures often differ from those of another culture is that the abstract starting points in the common morality can be coherently applied in a variety of ways to create norms that take the form of specific guidelines, institutional and public policies, and conflict resolutions. Universal norms are simply not appropriate instruments to determine practice or policy or to resolve conflicts unless they are made sufficiently specific to take account of financial constraints, social efficiency, cultural pluralism, political procedures, uncertainty about risk, and the like.

General moral norms must be *specified* to make them sufficiently concrete so that they can function as practical guidelines in particular contexts. Specification is not a process of producing general norms such as those in the common morality; it assumes that they are already available. Specification reduces the indeterminateness and abstractness of general norms to give them increased action-guiding capacity, without loss of the moral commitments in the original norm(s).⁴⁰ For example, the norm that we must “respect the autonomous judgment of competent persons” cannot, unless it is specified, handle complicated problems of whether workers have a right to know about potential dangers in a chemical plant. This will have to be specified in light of the dangers in the plant (or in that type of plant). The process of specification will have to become increasingly concrete as new problems emerge. That is, even already specified rules, guidelines, policies, and codes will almost always have to be specified further to handle new or unanticipated circumstances.

As defenders of the common morality theory see it, this is the way business ethics actually works, and it is through this progressive specification that we retain the common morality and make moral progress by creating new norms. The common morality can be extended as far as we need to extend it to meet practical objectives. There is, of course, always the possibility of developing more than one line of specification when confronting practical problems and moral disagreements. It is to be expected – indeed, it is unavoidable – that different persons and groups will offer conflicting specifications to resolve conflicts or vagueness. In any given problematic case, several competing specifications may be offered by reasonable and fair-minded parties, all of whom are serious about maintaining fidelity to the common morality. For example, while it may be commonly understood that people must be respected, there are likely many different but equally reasonable ways of demonstrating respect for customers or employees.

This diversity does not distress defenders of a common morality theory, because they believe that all that we can ask of moral agents is that they impartially and faithfully specify the norms of the common morality with an eye to overall moral coherence.

Another challenge to common morality theory comes from those who argue that reasonable people from disparate cultures *disagree* about what constitutes the common morality itself and that there are therefore a variety of different and inconsistent common moralities.⁴¹ This

particular criticism is not compelling, however, because it has never been shown and even seems inconceivable that some morally committed cultures do not accept rules against lying, breaking promises, stealing, and the like. This is what would have to be shown to prove that common morality theories do not hold universally.

A PROLOGUE TO THEORIES OF JUSTICE

The concluding chapter (Chapter 11) of this book focuses on justice in relation to business. Many rules and principles form the terms of cooperation in society. Society is laced with implicit and explicit arrangements and agreements under which individuals are obligated to cooperate or abstain from interfering with others. Philosophers are interested in the justice of these terms of cooperation. They pose questions such as these: What gives one person or group of people the right to expect cooperation from another person or group of people in some societal interchange (especially an economic one) if the former benefit and the latter do not? Is it just for some citizens to have more property than others? Is it fair for one person to gain an economic advantage over another, if both abide strictly by existing societal rules?

In their attempts to answer such questions, some philosophers believe that diverse human judgments and beliefs about justice can be brought into systematic unity through a general theory of justice. Justice has been analyzed differently, however, in rival and often incompatible theories. Some features of these general normative theories of justice are treated in Chapter 11. Here we need note only that a key distinction between just *procedures* and just *results* exists in the literature on justice.

Ideally, it is preferable to have both, but this is not always possible. For example, a person might achieve a just result in redistributing wealth but might use an unjust procedure to achieve that result, such as undeserved taxation of certain groups. By contrast, just procedures sometimes eventuate in unjust results, as when a fair trial finds an innocent person guilty. Some writers in business ethics are concerned with issues of procedural justice when they discuss such concerns as the use of ombudsmen, grievance procedures, peer review, and arbitration procedures.

Many problems of justice that a cooperative society must handle involve some system or set of procedures that foster, but do not ensure, just outcomes. Once there is agreement on appropriate procedures, the outcome must be accepted as just, even if it produces inequalities that seem unjust by other standards. If procedural justice is the best that can be attained – as, for example, is claimed in the criminal justice system – society should accept the results of its system with a certain amount of humility and perhaps make allowances for inevitable inequalities and even inequities and misfortunes.

In the age of globalization, questions of global justice have been given more attention by political philosophers. The facts that inspire much contemporary work on global justice are well known. Nearly 1 billion people are malnourished and without access to safe drinking water, and 50,000 humans die each day owing to poverty-related causes. Approximately 2.6 billion people live on \$2 a day or less. Additionally, increases in global warming, caused primarily by a long history of disproportionate carbon emissions per capita by industrialized nations, are expected to worsen the situation of the world's poorest people this century.

Political philosophers are attempting to work out the obligations of the world's advantaged peoples to the world's poorest peoples. One common view taken by many economists is that rapid economic liberalization in the interest of job creation in the world's poorest nations is the best means of promoting a just global distribution of wealth. In reply, many theorists of global justice argue that rapid economic liberalization by itself may be insufficient or may introduce more problems than it solves. So-called Cosmopolitan theorists argue instead for adherence to careful economic

development strategies that adhere to core ethical norms such as basic human rights. More recently, they have also begun to argue for an ethical obligation to reduce carbon emissions to curb climate change given its anticipated harmful impacts on human populations, especially the poor who are least able to adapt.

THE MORAL POINT OF VIEW

A student whose first introduction to ethical theory is this introductory chapter would not be unjustified in feeling a little frustrated at this point. “How,” one might ask, “am I supposed to decide which of the normative theories presented thus far – utilitarianism, Kantian ethics, rights theory, virtue ethics, and common morality theory – is the most appropriate basis for making sound ethical decisions regarding business decisions?” This is a reasonable concern. Our response is threefold. First, moral philosophy is a 2,500-year-old tradition. It is not surprising that there should be a significant body of work that merits careful attention. To ignore or downplay this tradition would impoverish any discussion of the ethical practice of business. Second, not all these theories are incompatible. Although some of these views, most notably the Kantian and utilitarian traditions, seem to stand in opposition to one another, other views are more compatible. For example, Kant recognized and discussed at length the importance of the virtues in the life of moral agents, and common morality theories welcome the idea of universally important virtues. Scholars are now beginning to pay more attention to Kant’s writings on virtue as well as to the compatibility of virtue theory with a number of other kinds of theory. So too, many of the most prominent rights theories can be grounded in various theories of obligation, including both Kantian ethics and rule utilitarianism. So we can see that several types of theories – or *elements* of the theories such as justice, nonmalevolence, honesty, or integrity – may be compatible. Different theorists tend to emphasize different ideas, but at least in the case of these views, we can see that a resourceful student of ethics will be able to draw some elements from each view without falling into inconsistency.

The third response is more complicated. All the theories discussed in this chapter share certain elements that could be referred to as the right attitude to take in ethics. This is often referred to as “the moral point of view.” When we take the moral point of view, we seek to adjudicate disputes rationally; we take an appropriately impartial stance; we assume that other persons are neither more nor less important than ourselves (so that our own claims will be considered alongside and not above those of others). These components of the moral point of view are respectively concerned with rationality, impartiality, and universalizability.

The moral point of view is *rational* in the sense that it involves the application of reason rather than feeling or mere inclination. This is not to denigrate the great importance of the moral emotions and sentiments (for example, love, devotion, and compassion), but moral issues also frequently invoke unwarranted emotional responses in individuals. The attempt to justify a moral stance by appeal to reasons that may be publicly considered and evaluated by other persons facilitates a process whereby individuals with distinctly different emotional responses to a moral issue may seek mutual understanding and, perhaps, agreement. In business the fact that one person wields more economic power than another person cannot by itself outweigh the needs for both parties to offer a rational basis for their competing moral perspectives.

The moral point of view is *universal* in the sense that the principles or propositions reached from that perspective apply to all persons and to all relevantly similar circumstances. Thus, if a moral principle or proposition is valid, no persons are exempt from its strictures. The notion of universalizability has particular relevance in the era of economic globalization. It requires that we regard all

persons as equal in dignity and as such that we respect them in our business dealings wherever they may live or work. It is not reasonable to expect highly concrete and practical standards that are universal (for example, “Don’t permit the lobbying of political officials”), but it is hoped that the basic principles on which such concrete rules are erected can be shown to apply to all persons (for example, “Avoid conflicts of interest”).

The moral point of view is *impartial* in the sense that a moral judgment is formed without regard to particular advantaging or disadvantaging properties of persons. Moral judgments are formed behind what John Rawls has called the “veil of ignorance”: A judgment should be formed without regard to the particular fortuitous advantages or disadvantages of persons such as special talents or handicaps, because these properties are morally arbitrary. The ideal, then, is an unbiased evaluation without regard to a person’s race, sex, nationality, and economic circumstances, which cannot be regarded as legitimate bases for treating persons differently from other persons. Impartiality is important in many business contexts, including human resource management, where such considerations may interfere with the fair evaluation, promotion, or dismissal of employees.

This understanding of the moral point of view does not exclude *partiality* as if it were illicit. Favoring the interests of one party over another is justified when there are overriding reasons for ranking the specific interests of one party over another. Such partiality is most likely to occur in contexts of familial, professional, or contractual responsibilities.

This point is of obvious importance to business managers who must discharge distinct moral and legal obligations to their employers. The challenge of the ethical manager is to determine when the interests of his or her employers trump those of other stakeholders, and when the interests of those stakeholders override the interests of his or her employers.

To sum up, a business person or business organization that is solely guided by economic considerations is an amoral or unethical organization. The ethical business person or organization, in contrast, is one in which managers and employees alike recognize the importance of moral considerations in their everyday business activities, as well as in their strategic planning, and act accordingly.⁴²

1.5 A MULTI-STEP ETHICAL DECISION PROCEDURE

Some ethical issues at work are relatively simple to resolve, especially in an organization with clear policies and a strong ethical culture. In such organizations, it may be simply a matter of applying existing policies consistently. However, many ethical issues in business are complicated and there are not always readily apparent answers to the challenges that arise. For example, Facebook’s business model is built around acquiring and selling user data; its business partners will be more profitable if Facebook users act in certain ways. Facebook users can be readily manipulated for business ends or for political ends. Facebook largely ignored the ethical dimensions of its business model, but was forced to confront them because of extensive criticism from external stakeholders. Consider three of these ethical issues: During the 2016 US election cycle, Russian agents, among others, spread misinformation on Facebook in order to manipulate users and thereby influence the outcome of the 2016 presidential election in a manner favorable to its authoritarian government. The Russians favored Donald Trump over Hillary Clinton and succeeded in sowing disinformation on the platform in support of Trump. Critics charge that Facebook failed to adequately identify and remove fake content from its feeds. Users could not differentiate false stories from stories from credible news sources. Facebook has also been criticized for misusing user

information by releasing user data to third parties without appropriate permission. In addition, Facebook was criticized for manipulating the emotions of hundreds of thousands of its users (including adolescents aged 13–17) without their informed consent. The goal of the manipulation was to test the power of Facebook’s influence. A *New York Times* investigative report in 2018 indicated that Facebook’s leaders were focused on growth and gave these challenging ethical issues minimal attention. In characterizing Facebook’s behavior, one executive for one of the world’s largest advertising companies concludes that “Facebook will do whatever it takes to make money. They have absolutely no morals.”⁴³

It should be noted that there is nothing unique about business issues that are complex and without an easy answer. How should a board of directors respond to a takeover offer? When should a company diversify its product line or bring a new product to market? How much should a firm invest in research? Despite the complexity and lack of a clear answer, these decisions get made and they get made because there is a procedure for making them. However, what is frequently overlooked is that most business decisions contain an ethical element, and sometimes the ethical element is the single most important element. To ignore or downplay ethical issues is to invite future difficulties as Facebook discovered. Here we provide a multi-step ethical decision-making procedure that takes into account the concepts and theories discussed in these chapters and serves as a practical means for managers and leaders to resolve ethical issues in business.

1. **Get the facts:** First, the management team must be sure it has the relevant facts. Getting the problem correctly identified is the appropriate starting point. If the problem is misidentified, or important elements of the problem are overlooked, any proposed solution is likely to fail to solve the problem. An analysis may show that there are multiple problems that require attention, or that the problem is more simple or more complex, or potentially much worse or less serious, than initially understood.

2. **Identify stakeholders:** To take the moral point of view, a person must consider the impact of his or her actions on those affected by one’s actions. In the context of business, those affected by a business decision are often called “stakeholders.” Some stakeholders have special salience because the support of these stakeholders is necessary to the survival of the firm. Customers, employees, suppliers, and the local community are prominent examples. It seems as if managers and government regulatory agencies are essential stakeholders in this sense as well. Treating these stakeholders with respect and fairness is both an ethical requirement and a requirement of prudence. But management decisions almost always impact individuals whose support is not necessary to the survival of the firm. Externalities, or firm actions that impact third parties who are not a party to a contract or transaction, are a prime example. To see this, consider that the actions of firms often impact the environment in negative ways that harm individuals (e.g., via air or water pollution) with no business relationship to the firm. An ethical decision requires that the management team consider the adverse impact of its actions on all those affected by a company’s decision.

3. **Act with integrity:** “Integrity” is sometimes used as a synonym for “honesty,” but its richer meaning is that one’s actions are consistent with one’s stated or professed values. Organizational integrity means staying true to the stated values of the organization. There is near unanimous agreement in the corporate community regarding the value of fidelity to the rule of law. There is widespread agreement regarding the importance of the values of honesty, fidelity to contracts, and fair dealing. We recognize that management sometimes does break the law or act in violation of these fundamental norms. However, such actions are widely condemned in the business community and the discussion of ethical theory in this chapter has provided reasons for firms to endorse the rule of law and these fundamental ethical norms. Normally, these values are the moral bedrock of a firm. Many firms also explicitly endorse values that emphasize a basic consideration for people, such as care and

respect. As we have seen earlier in this chapter, such consideration can be regarded as a minimum moral expectation.

Such values are not, however, exhaustive of the values that must be considered in a business decision. Most businesses explicitly endorse values that are associated with the particular industry they are in. The banking industry is committed to the value of privacy and has the confidentiality of client financial information as a priority. Safety is a fundamental value in the oil, mining, and construction industries. Patient welfare is a core value in the healthcare and pharmaceutical industries. In making decisions, the management team should be true to the values of the organization it manages and employees should be commended for taking such values into account in the actions they perform on behalf of the firm.

4. **Consider the consequences:** Assess the consequences of potential courses of action on different stakeholders. It is easy to ignore the consequences of an action on the less powerful and those that appear to have little or no influence on firm revenues. For example, many corporations have been criticized because their management team seems to focus only on the impact of their decisions on short-term stock valuation (which is typically tied to their compensation). An overemphasis on the short-term stock price, while potentially valuable to current stock owners, is bad ethics and typically bad management, even if it results in enhanced compensation for executives. An ethical perspective requires managers and leaders to take into account the broader consequences of their decision. This does not mean that the interests of all affected parties necessarily have the same weight, but that the interests of diverse stakeholders need to be weighed.

5. **Make a sound decision:** Firm leaders or managers must eventually decide how to proceed. Decisions that contain important ethical dimensions should be justified by reference to the preceding steps. For complex problems it is important to think creatively, and not merely as if there are only two options that one can choose from. Managers frequently operate with bounded rationality that limits their ability to think creatively outside their normal patterns or habits. For important decisions, consulting stakeholders can provide invaluable insight and new ways of thinking that can inform the ultimate decision.

The chapters that follow will delve more deeply into the practices of business, identify those affected by business activities, and emphasize important ethical principles and values that can help managers and leaders make ethically sound decisions. We will also consider what features of organizations, what types of leaders, and what industry practices can support the ethical conduct of business.

Notes

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