Business Ethics

Decision Making for Personal Integrity and Social Responsibility

Business Ethics

Decision Making for Personal Integrity and Social Responsibility

Fifth Edition

Laura P. Hartman
School of Choice/L'Ecole de Choix

Joseph DesJardins
College of St. Benedict/ St. John's University

Chris MacDonald
Ryerson University

Mc Graw Hill

To Rachel and Emma.

—Laura Hartman

To Michael and Matthew.

—Joseph DesJardins

To Georgia.

—Chris MacDonald

About the Authors

Laura P. Hartman *The School of Choice/L'Ecole de Choix (Haiti)*

Laura Pincus Hartman is Executive Director of the School of Choice Education Organization, a U.S.–based nonprofit that she cofounded, which oversees the School of Choice/L'Ecole de Choix, a unique leadership development education program in Haiti that serves children and families living in extreme conditions of poverty.

Hartman also is professor emerita at DePaul University. She held a number of roles during her almost three-decade career there, including Associate Vice President for Academic Affairs, Vincent de Paul Professor of Business Ethics at DePaul University's Driehaus College of Business, and Director of its Institute for Business and Professional Ethics. From 2015–2017, Hartman also served as the inaugural Director of the Susilo Institute for Ethics in the Global Economy at Boston University and Clinical Professor of Business Ethics in BU's Department of Organizational Behavior. She has been privileged to serve as an Associated Professor at the Kedge Business School (Marseille, France) and has taught as a visiting professor at INSEAD (France), HEC (France), the Université Paul Cezanne Aix Marseille III, the University of Toulouse, and the Grenoble Graduate School of Business and served as the Gourley Professor of Ethics at the Melbourne Business School.

Hartman is past president of the Society for Business Ethics and established its Professional Mentorship Program. She is the co-author of *Employment Law for Business* (McGraw-Hill). Hartman graduated *magna cum laude* from Tufts University and received her law degree from the University of Chicago Law School. She divides her time between Haiti and Sint Maarten, and has been a mother to two daughters.

Joseph DesJardins *College of St. Benedict/St. John's University*

Joseph DesJardins holds the Ralph Gross Chair in Business and the Liberal Arts and is professor of philosophy at the College of St. Benedict and St. John's University in Minnesota. His other books include *An Introduction to Business Ethics; Environmental Ethics: An Introduction to Environmental Philosophy; Environmental Ethics: Concepts, Policy & Theory; Contemporary Issues in Business Ethics* (coeditor with John McCall); and *Business, Ethics, and the Environment: Imagining a Sustainable Future.* He has served as president and executive director of the Society for Business Ethics and has published and lectured extensively in the areas of business ethics, environmental ethics, and sustainability. He received his BA from Southern Connecticut State University and his MA and PhD from the University of Notre Dame.

Chris MacDonald *Ryerson University*

Chris MacDonald is an associate professor and director of the Ted Rogers Leadership Centre at Ryerson University's Ted Rogers School of Management in Toronto, Canada, and a senior nonresident fellow at Duke University's Kenan Institute for Ethics. His peer-reviewed publications range across business ethics, professional ethics, bioethics, the ethics of technology, and moral philosophy, and he is coauthor of a best-selling textbook called *The Power of Critical Thinking* (4th Canadian Edition, 2016). He is cofounder and coeditor of both the *Business Ethics Journal Review* and the news and commentary aggregator site *Business Ethics Highlights.* He is perhaps best known for his highly respected blog, *The Business Ethics Blog,* which is carried by *Canadian Business* magazine.

Preface

We began writing the first edition of this textbook in 2006, soon after a wave of major corporate scandals had shaken the financial world. Headlines made the companies involved in these ethical scandals household names: Enron, WorldCom, Arthur Andersen, KPMG, J.P. Morgan, Merrill Lynch, Morgan Stanley, Citigroup, Salomon Smith Barney. At that time, we suggested that, in light of such significant cases of financial fraud, mismanagement, criminality, and deceit, the relevance of business ethics could no longer be questioned.

Sadly, as we enter the fifth edition of this book, these same issues are as much alive today as they were a decade ago. While our second edition was preceded by the unprecedented financial meltdown in 2008–2009 and the ethical problems faced by such companies as AIG, Countrywide, Lehman Brothers, Merrill Lynch, and Bear Stearns, this current edition continues to witness financial and ethical malfeasance of historic proportions and the inability of market mechanisms, internal governance structures, or government regulation to prevent it.

But the story is not all bad news. While cases of corporate fraud continue to make headlines (think of the recent Volkswagen, Wells Fargo, and Facebook scandals), countless small and large firms provide examples of highly ethical—and profitable—business enterprises. The emergence of benefit corporations (see Chapter 5 for examples) is only one instance of corporations dedicated to the common good. In this edition, we aim to tell the stories of both the good and the bad in business.

As we reflect on both the ethical corruption and the ethical success stories of the past decade, the importance of ethics is all too apparent. The questions today are less about whether ethics should be a part of business strategy and, by necessity, the business school curriculum, than about which values and principles should guide business decisions and how ethics should be integrated within business and business education.

This textbook provides a comprehensive, yet accessible introduction to the ethical issues arising in business. Students who are unfamiliar with ethics will find that they are as unprepared for careers in business as students who are unfamiliar with accounting and finance. It is fair to say that students will not be fully prepared, even within traditional disciplines such as accounting, finance, human resource management, marketing, and management, unless they are sufficiently knowledgeable about the ethical issues that arise specifically within and across those fields.

Whereas other solid introductory textbooks are available, several significant features make this book distinctive. We emphasize a decision-making approach to ethics, and we provide strong pedagogical support for both teachers and students throughout the entire book. This decision-making approach balances the goals of helping student reach conclusions without imposing someone else's answers on them. Our goal is to help students make responsible decisions for themselves.

But ethical decision making is no small feat, especially in an area that is necessarily multidisciplinary. Numerous small cases and examples aim to help teachers and students integrate concepts and material from philosophy, law, economics, management, finance, and marketing with the very practical goal of making real-life decisions. We aim to bring students into these discussions by regularly grounding our discussions in issues with which they are already familiar, thus approaching them through subjects that have already generated their interest.

New to the Fifth Edition

While our goal for the fifth edition remains the same as for the first—to provide "a comprehensive yet accessible introduction to the ethical issues arising in business"—readers will notice a few changes. As always, the primary incentive of a new edition is to update the text with new and timely cases and topics. Readers will find new discussions of such companies as Facebook and Wells Fargo, as well as such topics as the #MeToo movement and digital privacy. Perhaps the most noticeable change, however, is the elimination of end-of-chapter readings, and this deserves some explanation.

When the first edition was published, our goal was to be as current and timely as possible, not only by including up-to-date examples throughout each chapter but also through the end-of-chapter readings. Our thinking was that these readings would allow students and teachers to dive more deeply into the subject matter and access perspectives to broaden the scope of the conversation. They also could serve as convenient topics for written assignments or in-class discussions. However, at this point, accessing these perspectives has become so easy through the internet and other means that including them is no longer necessary to achieve our original goals. In fact, our choices instead can limit rather than broaden the range of ideas available.

Further, the increasing costs of textbooks are a serious concern for everyone in education. Students should know that while they are most directly affected by rising costs, teachers, authors, and, yes, even publishers are also troubled by this and regularly look for ways to reduce the costs of education. As we (the authors and our publisher, McGraw Hill) looked for ways to control costs, the end-of-chapter readings stood out. Permission fees for reprinting readings have increased significantly in recent years, especially in this era of electronic and custom publishing, and the additional length added by the readings contributes to increasing production costs. We decided that these added costs were no longer justified by the benefits, especially considering that the readings are often readily available online, typically at no costs to students under the "fair use" copyright guidelines. The readings were always included only as a means to supplement the core text, and we have now concluded that students would be better served by eliminating the readings and focusing this edition more on the core text itself. In several cases, we have been able to integrate the content of the reading within the text as a Reality Check or Decision Point.

We have retained the same logical structure and chapter organization of previous editions because we have heard from many colleagues and reviewers that this structure works well for a semester-long course in business ethics. But every chapter has been revised to include new and updated material, cases, topics, and readings. Importantly, we continue to provide increased international perspectives, with particular references to Canadian and UK legislation and institutions.

Among the changes to this edition are the following:

New or revised Opening Decision Points for every chapter, including new cases or in-depth discussions on:

- Wells Fargo
- Job security and confidentiality
- Executive compensation
- Free expression in the workplace
- Facebook
- Digital marketing
- The business of food

New cases, Reality Checks, or Decision Points within the text on such companies and topics as:

- Mylan Epi-Pen
- Greed
- #MeToo movement
- Tesla
- Uber
- Marijuana in the workplace
- Digital privacy
- Gender and sexual identity

As always, we reviewed and revised the entire text for accessibility, consistency, and clarity.

Acknowledgments

A textbook should introduce students to the cutting edge of the scholarly research that is occurring within a field. As in any text that is based in part on the work of others, we are deeply indebted to the work of our colleagues who are doing this research. Our book is a more effective tool for both students and faculty because of their generosity.

In particular, thanks to Ryerson students **Stefania Venneri, Tanya Walia,** and **Daniel Marotta** for their useful suggestions, and to **Katrina Myers** at the University of Chicago and to **Summer Brown** at DePaul University for their exceptional research and editing assistance. In addition, we wish to express our deepest gratitude to the reviewers and others whose efforts served to make this manuscript infinitely more effective:

Cheryl Adkins
Longwood University

Lynda Fuller
Wilmington University

Daniel F. Nehring
Morehead State University

Richard Stillman
The Graduate Center, CUNY

Jeffrey Yoder
Fairfield University

Our thanks also go out to the team at McGraw-Hill Education who helped this book come into existence:

Michael Ablassmeir
Director

Laura Hurst Spell
Associate Portfolio Manager

Lisa Granger
Marketing Manager

Melissa M. Leick
Senior Content Project Manager

Brief Contents

Table of Contents

Chapter 1

Ethics and Business

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that you'll do things differently.

Warren Buffet

Ethics is the new competitive environment.

Peter Robinson, CEO, Mountain Equipment Co-op (2000–2007)

No snowflake in an avalanche ever feels responsible.

Voltaire, 1694–1778

Opening Decision Point

Wells Fargo and Consumer Fraud[1]

In December 2013, the *Los Angeles Times* published the results of an ongoing investigation into Wells Fargo. The *Times* report described high-pressure sales practices that were aimed at marketing additional financial products to present customers, a practice known as cross-selling. The report told of Wells Fargo employees establishing new accounts in customers' names without their consent or knowledge. The *Times* story included interviews with numerous branch managers from across the United States who described unreasonably high sales targets and quotas that encouraged such unethical practices. In response to this story, Wells Fargo claimed that they took all legal or ethical lapses seriously but denied any systemic wrongdoing. A spokesperson cited a new corporate Ethics Program Office that would oversee compliance with corporate ethical standards.

Following this report, the City of Los Angeles, the State of California, and the U.S. Consumer Financial Protection Bureau (CFPB) began a series of investigations into Wells Fargo. Exactly how aggressive Wells Fargo had been in cross-selling became clear in September 2016 when the CFPB announced that Wells Fargo employees had fraudulently opened millions of unauthorized credit card and deposit accounts in the name of present customers. Wells Fargo admitted to the wrongdoing and agreed to pay fines of $185 million to state and federal authorities.

The investigations uncovered a wide range of fraudulent practices that included ordering credit cards, opening new accounts, establishing new lines of credit, or purchasing insurance and overdraft protection. All of this was done without the consent or knowledge of customers. In some cases, employees forged customers' signatures or used their own address so information about these accounts would be sent to their homes rather than to the defrauded customers. The process involved was reasonably easy. Employees, often in the type of entry-level positions that recent college graduates might fill, had ready access to the information needed to open new accounts: names, addresses, social security numbers, credit reports, and so forth. Applying for and confirming the sale of a new product for an existing customer could be done with a few clicks of a mouse. Investigations revealed that thousands of employees had taken part in the scheme.

Much of the activity described by the *Los Angeles Times* occurred at local branch offices and included every level of employee from tellers to personal bankers to the branch managers themselves. Of course, such widespread fraud could not have gone unnoticed by managers who had oversight of these branch offices. It soon became clear that mid-level management had actively participated in these activities, including providing instructions on how to do it and how to avoid detection by customers. Branch managers who failed to meet sales targets were publicly berated and threatened by their superiors. Employees who missed targets for cross-selling were required to work nights and weekends and were denied promotions and salary increases. It also appears that employees who were reluctant to participate, or who attempted to blow the whistle, not only lost their jobs but also received negative evaluations that effectively prevented them from finding future employment in the banking industry. Less directly, but perhaps much more effectively, management participated in the practice by creating and enforcing demanding sales quotas, and wage and salary structures that rewarded those who met these targets.

Wells Fargo had a reputation as a leader in the business strategy of cross-selling, the practice of marketing additional products to existing customers. Traditionally, banks and financial services companies had seen themselves as professionals who provided advisory services to clients in much the same way that an attorney or an accountant provides professional services to his or her clients. On this model, success would be measured in terms of achieving the clients' interests in managing risks, return on investment, and so forth. This fiduciary model of business aims to align the interests of the firm with the interests of the client so that when the client succeeds, the firm succeeds. But many banks and financial institutions have moved away from this fiduciary model in recent decades to adopt a more transactional, consumerist model in which clients are viewed simply as customers to whom the company sells products. Here, the firm's success is measured in terms of how many products are sold and how much profit is earned from those sales. Of course, one trade-off of this shift is that client and business interests may not always align in that the business can profit whether or not the customer does. Wells Fargo was among the first banks to move aggressively in this direction.

At the time of the 2016 announcement, Wells Fargo admitted that since 2011 employees had opened more than 1.5 million fraudulent accounts and more than 500,000 unauthorized credit card applications in the names of present customers. Further investigations of activities prior to 2011 discovered that more than half a million additional fraudulent online bill-paying accounts also had been opened and hundreds of thousands of fraudulent insurance policies were sold to unsuspecting customers. By early 2018, Wells Fargo had admitted to selling more than 3.5 million unauthorized financial products to customers.

In April 2018, the CFPB and the U.S. Comptroller of the Currency announced additional fines to punish Wells Fargo for deceptively adding unneeded insurance to consumer auto loans and manipulating interest rates on mortgages. As many as 600,000 automobile loans might have been subjected to such unneeded additional insurance.

Initially, senior Wells Fargo executives, including CEO and Board Chair John Stumpf, claimed that the fault rested with "dishonest" individuals who had been fired for this behavior. In total, 5,300 employees were fired as a result of these frauds. Testifying to the U.S. Senate Banking Committee, Stumpf claimed: "I do want to make it clear that there was no orchestrated effort, or scheme as some have called it, by the company. We never directed or wanted our employees, whom we refer to as team members, to provide products and services to customers they did not want or need."[2] Stumpf explained the widespread nature of the fraud as likely resulting from employees talking to each other.

But closer analysis showed a pattern of decisions, behavior, and tone at the highest executive levels that contributed to a culture in which such widespread fraud flourished. Stumpf himself was known for his mantra, "eight is great," to promote a target of eight products for each customer in an industry where the average was less than half that. During every quarterly earnings call that took place while the fraud was occurring, Stumpf had boasted to investors of the ever-increasing levels of record cross-selling. Partially as a result, the value of Stumpf's own stock ownership increased by more than $200 million during the five years that the fraud was prevalent.

(*continued*)

(concluded)

There was also evidence that senior executives knew of the fraudulent sales well before the practice became public. After all, the *Los Angeles Times* article was published three years previously. Further, Wells Fargo's own training manual contained a reminder not to sell products without the explicit consent of customers—a reminder that the manual highlighted and emphasized in such a way to suggest that the practice was known to occur. Wells Fargo executives also had internal reports showing that the steady increase in cross-selling was directly correlated with a steady increase in accounts that were never used by customers.

The entire culture of Wells Fargo seemed designed to encourage cheating and discourage honest sales practices. For example, the incentive system, ranging from sales targets for hourly workers to executive bonuses, made it clear to everyone that aggressive cross-selling was the expectation for all. The senior executive who had direct oversight of the sales division received over $125 million when she retired just before the scandal was revealed. (Wells Fargo eventually recovered half that amount in a claw-back process.) Employees stated that reports to an internal ethics hotline and to the corporate ethics program were ignored. In response to claims that they failed to exercise their oversight function as required by U.S. federal law, board members later claimed they were left in the dark, learning about the scandal from the media. Like many corporations, the Wells Fargo CEO also served as the chair of the board.

It is worth noting that various government agencies were involved in this case. City of Los Angeles and California state investigators played a major role is uncovering the fraud. The federal CFPB and the Comptroller of the Currency also worked on the investigations and instituted the large fines against Wells Fargo. The U.S. Senate Banking Committee held several hearings in which members very publicly criticized Wells Fargo executives and its board. The U.S. Federal Reserve Bank, the primary regulator of U.S. banks, imposed strong penalties on the bank and its board. In an unprecedented punishment, the Fed restricted Wells Fargo's future growth and required the replacement of several board members for failing their oversight duty. But other government actions, including laws that prohibited fraud, protecting whistle-blowers, and laws that required ethical compliance and oversight by the board, proved ineffective in preventing widespread fraud that went on for many years.[3]

1. A helpful first step in ethical analysis is to look for harms and benefits. What harms were done by this fraud? Can you explain exactly what the ethical wrong was? Other than consumers, who else was harmed? Who benefited? Did the parties who benefited deserve the benefit? Were any benefits unfair or unethical?
2. Where would you place primary responsibility for this scandal: individual employees who forged customers' accounts, managers who oversaw those employees, senior executives, board members, or the corporation itself?
3. Sometimes when we assign responsibility, we are looking for someone to blame, someone who is at fault. Who do you blame in this case?
4. Sometimes the question of responsibility is asked so that we can identify the cause and, in turn, prevent it from happening again. What recommendations would you make to prevent this from happening again?

5. How do you understand the difference between a fiduciary model and a transactional, consumerist model of the business–customer relationship? What reasons exist for the fiduciary model? Why would a financial or banking firm (or law firm, accounting firm, or hospital) not seek to make as much money as possible from its customers? Is there an ethical difference between the fiduciary and transactional models?

Chapter Objectives

After reading this chapter, you will be able to:

1. Explain three levels at which ethical decisions get made in business.
2. Explain the nature of business ethics as an academic discipline.
3. Explain why ethics is important in the business environment.
4. Explain why ethical responsibilities go beyond legal compliance.
5. Distinguish the ethics of personal integrity from the ethics of social responsibility.
6. Distinguish ethical norms and values from other business-related norms and values.
7. Describe ethical decision making as a form of practical reasoning.

Introduction: Getting Comfortable with the Topic

When we began work on the first edition of this book in the early 2000s, the legal, financial, and ethical implications of the Enron scandal was still front-page news. Almost twenty years later, Enron has faded from public consciousness. One reason for this, of course, is that as a direct consequence of these scandals neither Enron nor its accounting firm Arthur Andersen exists today. In 2000, they were both well-known and highly respected global firms.

Some years later, as we prepared another edition, the entire global economy was in the middle of the deepest economic recession since the Great Depression of the 1930s. That recession resulted from the collapse of a housing bubble that was brought about because of ethically questionable subprime mortgage lending practices, widespread trading of fraudulent financial instruments based on these risky mortgage-backed securities, and a failure of oversight on corporate, professional, and governmental levels. As a direct result of these ethical lapses, hundreds of banks failed and dozens of globally active financial institutions, including such major well-known firms as Lehman Brothers, Bear Stearns, Countrywide Financial, and Washington Mutual, ceased to exist, either through bankruptcy or by being acquired by other companies at greatly reduced prices.

The list of major business firms involved in significant ethical scandals during just the first two decades of the twenty-first century is depressingly long. Besides the corporations already mentioned, the list would include such major global firms as Walmart, Nike, Apple, Merrill Lynch, JP Morgan, KPMG, Credit Suisse, Takata, Halliburton, AIG, WorldCom, Tyco, Global Crossing, Rite Aid, Sunbeam, Waste Management, HealthSouth, Ernst and Young, Citigroup, Salomon Smith Barney, Goldman Sachs, Bank of America, Deep Water Horizon, Exxon, Johnson & Johnson, Pfizer, Firestone, BP Global, Fannie Mae, and even the New York Stock Exchange itself.

Sadly, the list of corporate scandals continues to expand. Beside the Wells Fargo case that opens this chapter, in just the past few years, recent and ongoing ethical scandals have involved such major companies as Facebook, Google, Volkswagen, Purdue Pharma, Deutsche Bank, Cambridge Analytica, Nissan, Tesla, Equifax, and Uber.

But the news is not all bad. There are also countless examples of exemplary corporations and business practices. A relatively new business phenomena called "Benefit Corporations" (discussed in Chapter 5) allows for-profit businesses to adopt an explicit corporate mission of serving the common good. Such well-known firms as Ben and Jerry's, King Arthur Flour, Seventh Generation, and Patagonia have adopted the Benefit Corporation model. Further, the growing field of social entrepreneurship seeks to leverage the skills and creativity of entrepreneurs to address social challenges. Corporate philanthropy exists everywhere, from the large scale of corporate foundations that give away millions of dollars annually, to small businesses in every local community that support schools, arts programming, and community organizations such as Boys and Girls Clubs, the United Way, Red Cross, and Habitat for Humanity with hundreds of millions of dollars in charitable giving.

No doubt we can find good and bad behavior in contemporary business. We can find some firms that are deeply corrupt, and we can find some that are models of social responsibility. Most often, we can find both good and bad behavior, good and bad people, in every individual firm. Our hope is that this book can help you navigate your way through these challenges and avoid the pitfalls of unethical situations.

This opening chapter will introduce business ethics as a process of decision making. Simply put, the harms caused by the scandals associated with all the organizations just mentioned were brought about by ethical failures and unethical decisions. This text provides a decision-making model that we believe can help both analyzing these past ethical failures and avoiding future ones.

1 OBJECTIVE

As the Wells Fargo case demonstrates, business decision making occurs at several levels. Every day at Wells Fargo, individual human beings, from tellers and personal bankers at local branch offices to senior executives and board members, had to decide for themselves what they were going to do. Am I going to open this fraudulent account? How am I going to treat the people who work for me? Should I speak up and push back against these demands, or should I just go along and get along? Should I continue to work for a firm that asks me to do these unethical things? As a board member, should I ask questions and challenge the CEO, or should I judge his work solely on the basis of quarterly earnings?

Decisions at Wells Fargo also occurred at an organizational level. Individual decisions were made within the context of organizational policies, practices, expectations, and norms. The organization, through its management, created incentive policies, disciplinary policies, dismissal practices, sales targets, handbooks, ethics programs, executive bonuses, and even specific directions on how to create fraudulent accounts and how to prevent customers from learning about them. The organization had a culture that allowed, if not encouraged, such unethical behavior.

But this Wells Fargo case also raises questions that go beyond the decisions made within the organization. Beyond the personal and organizational level, there is a broader social and political level of decision making that is also relevant for business ethics. Given the many corporate scandals we've mentioned, and given all the people who have been harmed by them, citizens must ask questions about the role of government, the law, and regulations. For example, what type of laws and regulations should govern business? What expectations do we have for regulatory bodies such as the Consumer Financial Protection Bureau? How much of business decision making should be left to market mechanisms such as competition and consumer demand, and how much should be subject to legal and regulatory standards?

The field of business ethics helps us analyze and evaluate decision making at all three of these levels. Business ethics involves decisions at the individual, at the organizational, and at a broader social and governmental level. As individuals, each of us interacts with businesses as customers, as employees, and as citizens of the countries in which they operate. A business ethics class can help us think about what we would do if we were the customers defrauded by Wells Fargo, what we might have done had we been the individual employees who were expected to open fraudulent accounts, and what we should do as individual citizens in a country in which these frauds were possible.

But individuals do not exist in a vacuum. Again, as the Wells Fargo case suggests, it can be difficult for good people to live up to their standards within a corrupt organization. Likewise, it can be difficult for bad people to act unethically within an organization that promotes and lives up to high ethical standards. As we will see later in this book, organizational culture and corporate leadership have important roles to play in decision making. Yet, business organizations themselves do not exist in a vacuum. Every business is situated within one or more social, economic, and political structures. Just as individual decisions and behaviors are influenced by the surrounding organization, so too are the decisions of individual businesses and entire industries influenced by social, economic, and political environments. A business operating in Quebec, Canada, will face a different social and cultural environment than one operating in Dallas, Texas.

Obviously, the law itself is the major means by which a society imposes standards and expectations upon business. But, as we describe in a later section, obeying the law is not enough to fulfill ethical responsibilities. It is also true that the social, economic, and political environments in which businesses operate are heavily value-laden, and a class on business ethics should help us think through these social, economic, and political values as well as those individual values that each of us use in making decisions.

Given this description, it is clear that business ethics is a multidisciplinary field. First, the field of business ethics is rooted in the more general discipline of philosophical ethics. The role of philosophical ethics is to provide the fundamental language and categories of ethics. For thousands of years philosophers have thought and theorized about such things as rights and duties, virtues and values, social justice, responsibilities, liberty, equality, and the common good. How these various concepts fit together, how they might be justified, what their strengths and weaknesses are, and how and where they apply in life are questions that philosophers have examined for millennia. Learning about philosophical ethics provides a knowledge base for our own study of business ethics so that we won't have to start from scratch.

Business ethics also includes resources from such fields as psychology, business management, organizational behavior, leadership studies, and sociology. How and why people behave as they do, how the organizational environment encourages and discourages behaviors, how organizations and individuals within them can create a culture in which ethical behavior flourishes are questions that arise from this diverse group of social sciences.

Finally, broader social disciplines such as law, economics, and political science contribute to business ethics as we think about how business organizations fit into a broader social and political context.

2 OBJECTIVE

To summarize, as a field, business ethics investigates ethical questions that arise at the individual, organizational, and social/political level. As ethically responsible people, each of us should consider how we interact with business as individual consumers, individual employees, managers, executives, and citizens. This text is a contribution to the academic field of business ethics. Its aim is to describe, examine, and evaluate ethical issues that arise within business settings and to help each of us become more ethical individuals and help us create more ethical institutions. A business ethics class therefore has many goals, including helping us to:

1. Develop the knowledge base and skills needed to identify ethical issues.
2. Understand how and why people behave unethically.
3. Decide how we should act, what we should do, and the type of person we should be as individuals.
4. Create ethical organizations.
5. Think through the social, economic, and political policies that we should support as citizens.

Making the Case for Business Ethics

3 OBJECTIVE

For business students, the need to study ethics should be as clear as the need to study the other sub-fields of business education. As discussed earlier, without this background, students simply will be unprepared for a career in contemporary business. Businesses themselves must take ethics into account and integrate ethics into their organizational structure, for both ethical and business reasons. But even for individuals who do not anticipate a career in business management or business administration, familiarity with business ethics is crucial. Our lives as employees, as consumers, and as citizens are affected by decisions made within business institutions; therefore, everyone has good reasons for being concerned with the ethics of those decision makers.

As recently as the mid-1990s, articles in such major publications as the *Wall Street Journal* and the *Harvard Business Review* questioned the value of teaching business ethics. Even today, it is not uncommon to encounter skepticism among students about the need and value of a class in business ethics. Part of this skepticism may come from a general skepticism about ethics itself. Many people view ethics as a mixture of sentimentality and personal opinion that would interfere with the efficient operation of business. From this perspective, ethics is a subjective matter of feelings and opinions that can safely and reasonably be ignored. (See the Decision Point "Who Is To Say What Is Right or Wrong?" in Chapter 3)

separation thesis
The separation thesis asserts that ordinary ethical standards should be kept separate from, and not be used to judge, business decisions because business has its own standards of good and bad.

A more influential version of this skepticism involves what some have called the "**separation thesis.**"[4] This perspective holds that ordinary ethical considerations should be kept separate from business decisions because business has its own standards of right and wrong. A version of this was most famously expressed by the Nobel Prize–winning economist Milton Friedman. In a 1970 article that has become a classic in business ethics, "The Social Responsibility of Business Is to Increase Its Profits," Friedman claimed that "there is one and only one social responsibility of business—to use its resources and engage in activities designed *to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.*"[5] Elsewhere in that essay, Friedman explained that the "rules of the game" included both law and "ethical custom."

It is fair to say that this separation thesis remains common in business circles. According to this view, business practice should be kept separate and independent of ordinary ethical concerns. Business fulfills its social and ethical responsibilities by pursuing profits within the law and within the rules of the economic game. Those economic rules are the conditions necessary to ensure the efficient operation of economic markets. In a marketplace free from fraud and deception, competitive pressures and market demand will direct the self-interested pursuit of profit to ethically appropriate goals. Thus, there is no reason to complicate the matter with outside ethical considerations.

Questions about the relationship between ethics and economics are as old as the field of economics itself. Adam Smith, often considered the founder of modern market economics, suggested in *The Wealth of Nations* that, under the conditions of a competitive market, self-interest alone would lead, "as if by an invisible hand," to ethically appropriate ends.[6] Yet in his other major book, *The Theory of Moral Sentiments,* Smith argued that sympathy and benevolence were among the most fundamental of all human motivations. The relationship between these two books has long puzzled scholars. How does one reconcile an economic model that seems to treat self-interest as sufficient for securing socially good ends with a moral psychology that treats benevolence and sympathy as fundamental?

The truth of the matter, and what was likely Smith's own view, is that human beings are capable of a wide diversity of motivations and behaviors, ranging from narrow self-interest to wide empathy and altruism. In this, business is no different from any other aspect of human life. Some motivations like selfishness, greed, and the pursuit of money, power, fame, or prestige can lead people to make decisions that can cause harm, that violate basic principles, and that can corrupt what the American president Abraham Lincoln once called the "better angels of our nature." Smith's market conditions were intended as a means to channel self-interested motives to greater social ends, but Smith himself did not think that humans are always and necessarily self-interested. (To consider a view that does consider humans as always self-interested, see the Reality Check "Psychological Egoism: Are Humans Naturally Selfish?")

While questioning the relevance of ethics to business was at one time an open question, today the more pressing question is not *whether to,* but *how to* effectively integrate ethics into business practice. After all, even the separation thesis holds that business ought to be governed by some ethics and some values. We should not lose sight of the fact that obedience to the law, avoiding fraud and deception, and engaging in free and open competition are themselves ethical considerations. The separation thesis claims that this narrow range of ethical considerations is enough for business to fulfill its responsibilities. Especially in light of the many cases of corporate scandal and corruption already mentioned, many would disagree with that judgment.

Consider the Wells Fargo case. Thousands of people lost their jobs, tens of thousands of consumers faced increased costs and lower credit ratings, some consumers even had their cars repossessed when they were unable to pay fraudulently increased loan costs. Or consider the Enron case, in which thousands of innocent people lost their jobs and investors, including countless pension funds and retirement funds, lost billions of dollars.

Most dramatically, consider the harms caused by the global economic collapse of 2008, a collapse largely brought about by ethical failures in the financial and real estate industries. In the United States alone, investigators found that more than 26 million people lost jobs and more than $11 trillion in household wealth was lost as a result of the 2008 economic meltdown. Within the first year of that recession, Canadian unemployment rose from 6.3% to 8.6%, with more than 400,000 Canadians losing their jobs. Within the U.S. and Canada, hundreds of thousands of families lost their homes, hundreds of banks failed, and countless other businesses went bankrupt. This crisis had cascading consequences, as the economic meltdown quickly spread across the globe.

psychological egoism
An alleged theory of human motivation that claims that all human actions are selfish and motivated by self-interest.

The official U.S. government investigation of this recession concluded that the financial crisis was avoidable because it resulted from failures of business management, regulatory oversight, and corporate governance, as well as a "systemic breakdown in accountability and ethics."[7] Within a year of this report, the U.S. government established the Consumer Financial Protection Bureau, the very governmental regulatory body that investigated the Wells Fargo fraud.

Reality Check *Psychological Egoism: Are Humans Naturally Selfish?*

In the background to some skepticism about the relevance of ethics to business, and often part of the reasoning behind the separation thesis, lies a theory called **psychological egoism.** This theory purports to be an account of human motivation, asserting that humans are fundamentally and unavoidably motivated by self-interest. In other words, everything that we do is one for our own, egoistic, benefit. Because this is thought a "fact" of human nature, so the argument goes, ethical considerations that expect us to act for the interests of others is unrealistic. Thus, it is only realistic to keep business rules separate from ordinary ethics.

Psychological egoists conclude that because humans are incapable of acting out of altruistic motivation, our only reasonable option is to arrange institutions in ways that channel individual egoism to the social good. The social contract tradition in political philosophy associated with Thomas Hobbes, for example, acknowledges the reality of self-interested individuals but argues that cooperative social behavior is in the self-interest of individuals. Adam Smith's theory provides another variation of this approach. Smith argues that rationally self-interested egoists acting within an open and competitive market and constrained by prohibitions against fraud and coercion would, as if led "by an invisible hand," promote the greater social good.

But is psychological egoism an accurate theory of human motivation? Does psychological egoism pose a serious challenge to doing business ethics? The first thing to note is that if this is to be a challenge to ethics, defenders must claim that egoism is something more than merely a tendency of humans. If humans acted selfishly only some of the time but were capable of altruistic behavior at other times (as Adam Smith himself seems to have concluded), then we have no reason to give up on ethics and no reason to adopt the separation thesis. In fact, this may well be the major point of ethics: People *tend* to act selfishly; therefore, ethics exists to establish constraints upon this selfish behavior.

In order for psychological egoism to threaten the relevance of ethics, defenders must claim that humans not only have a general tendency to act selfishly, but must always and only act out of self-interest. But, on the face of it, such a claim is obviously false. Parents and friends are two everyday examples of humans who regularly act for the well-being of others. More generally, if psychological egoism were true, we would either need to radically revise or totally abandon such concepts as friendship, love, charity, volunteering, sacrifice, generosity, loyalty, and countless others acts that assume altruistic motivation.

Egoists have two ways to answer these facts. First, they might claim that when people act in such ways, they are still doing what they want and, therefore, are still acting selfishly. But this option is deeply misguided. On one hand, if this is intended as an empirical claim about human behavior, it is obviously false. People do things that they don't "want" to do all the time (consider going to the dentist and doing philosophy homework as examples!). On the other hand, if this is not intended as an empirical claim—if it is an attempt to define self-interest as doing *whatever* an individual wants—then the egoist has abandoned the attack on ethics. That is, if the egoist admits that people are capable of two types of self-interested acts—those in which they want to benefit the self and those in which they want to benefit others—then the door is still open for ethics to sometimes require the latter rather than the former.

A second response commonly made by egoists is to claim that even in cases of sacrifice and charity, people derive satisfaction out of ethical acts, and this suggests that selfishness underlies even the most beneficent act. So, even the mother who sacrifices for her baby is self-interested because she gets the satisfaction of lovingly caring for her baby from the act. But this response also fails because it confuses the intention or motivation for acting (one of the things with which ethics is concerned) with the feelings or reactions that follow from the act. I am selfish egoist only if the reason (or intent or motivation) that I have for helping my children is *in order to* feel good about myself. I am selfish if my intent for helping my friends is only to derive some personal benefit from this act. But that is not what motivates parents, or friends, or many of us much of the time. Our reason and motivation are to help others, and feeling good about it after the fact does not diminish the ethical nature of the act.

Familiarity with psychological egoism will be helpful for the study of business ethics. Ethics will sometimes require business managers to sacrifice their own self-interest, often in the form of profits, in order to fulfill their ethical responsibilities. It is not uncommon for people to think that such a requirement is unrealistic and unreasonable. This may be particularly true for those people who have been taught by certain economic theories that humans are naturally selfish. But psychological egoism provides no support for such conclusions.

Note: You will see Reality Checks throughout each chapter. Slightly different from Decision Points, these boxes offer practical applications of the concepts discussed during that chapter segment or examples of the ways in which the concepts are implemented in "real" business decision making.

stakeholder
In a general sense, a stakeholder is anyone who can be affected by decisions made within a business. More specifically, stakeholders are considered to be those people who are necessary for the functioning of a business.

By now, the case for business ethics should be clear. Decisions made in business can have a significant impact on the well-being of countless individuals both within and outside of the business itself. Business decisions can no more escape ethical judgment than any other aspect of living a human life. As some of the examples already discussed demonstrate, both the very existence of a firm and the conditions under which it operates require that decision makers move beyond the narrow view of responsibilities that are captured by the separation thesis to consider the impact of those decisions on a wide range of **stakeholders.** In a general sense, a business *stakeholder* will be anyone who affects or is affected by decisions made within the firm, for better or worse. Failure to consider these additional stakeholders will have a detrimental impact on those stakeholders, on stockholders and on the firm's long-term sustainability as a whole. This perspective is articulated effectively by Whole Foods Market's "Declaration of Interdependence."

> Satisfying all of our stakeholders and achieving our standards is our goal. One of the most important responsibilities of Whole Foods Market's leadership *is to make sure the interests, desires and needs of our various stakeholders are kept in balance.* We recognize that this is a dynamic process. It requires participation and communication by all of our stakeholders. It requires listening compassionately, thinking carefully and acting with integrity. Any conflicts must be mediated and win-win solutions found. Creating and nurturing this community of stakeholders is critical to the long-term success of our company. [Emphasis added.][8]

The Reality Check "How Does the Law Support Ethical Behavior?" describes some legal requirements that have been created in the United States since the Enron scandal. Beyond these specific legal obligations, organizational survival relies upon ethical decisions in a great many ways. Unethical behavior not only creates legal risks for a business, it creates financial and marketing risks as well. Managing these risks requires managers and executives to remain vigilant about their company's ethics. It is now more clear than ever that a company can lose in the marketplace and go out of business, and its employees go to jail, if no one is paying attention to the ethical standards of the firm.

As a final point, we should acknowledge that there are good business and financial reasons for practicing good ethics. First, a good reputation is itself good for business. Major firms such as Patagonia and Ben and Jerry's explicitly market themselves as pursuing ethically beneficial goals. More generally, look to retail marketing advertisements to see how often firms use such words as "trust," "honest,"

Reality Check *How Does the Law Support Ethical Behavior?*

As we will explain in the following section, ethics and the law are not the same. But law and ethics overlap in many ways. Good laws become law precisely because they promote important ethical values. But in some cases, laws are passed to help support ethical behavior in another way, namely by focusing the attention of corporate leaders on the need to work hard to ensure ethical behavior in their organizations. In 2002, for example, the U.S. Congress passed the Sarbanes-Oxley Act to address the wave of corporate and accounting scandals. Section 406 of that law, "Code of Ethics for Senior Financial Officers," requires that corporations have a code of ethics "applicable to its principal financial officer and comptroller or principal accounting officer, or persons performing similar functions." The code must include standards that promote:

1. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
2. Full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the issuer.
3. Compliance with applicable governmental rules and regulations.

"reliable," "dependable," and "caring" to promote business in the marketplace. Second, as some of the most dramatic corruption cases have demonstrated, unethical behavior can cause serious harm to the firm itself, up to and including bankruptcy. Third, attracting and retaining employees is easier for firms with good ethics than those with bad reputations. Finally, as such firms as Nike, McDonald's, Facebook, Walmart, Chick-fil-A, Nestle, and Target have learned, consumer boycotts of unethical business practices can have significant financial costs.

Ethics and the Law

4 OBJECTIVE

Before turning to a discussion of ethical decision making, it is worth reflecting on the role played by the law. Any discussion of norms and standards of proper business behavior would be incomplete without considering the law. In fact, some defenders of the separation thesis would argue that the law provides the only social norms and standards needed for business ethics.

It is certainly true that deciding what one *should do* in business does require consideration of what the law requires, expects, or permits. The law does provide an important guide to ethical decision making, and this text will integrate legal considerations throughout. But legal norms and ethical norms are not identical, nor do they always agree. For example, some ethical requirements, such as treating one's employees with respect, are not legally required, though they are ethically justified. On the other hand, some actions that may be legally permitted, such as firing an employee for no reason, would fail ordinary ethical standards.

As reflected in the separation thesis, some people continue to believe, perhaps more commonly prior to the scandals of recent years than after, that a business fulfills its social responsibility simply by obeying the law. From this perspective, an ethically responsible business is merely one that complies with the law; there is no responsibility to do anything further. Individual businesses may choose to go beyond this legal minimum, such as when a business supports the local arts, but these choices are voluntary. A good deal of management literature on corporate social responsibility centers on this approach. Business ethics requires obedience to the law; anything beyond that is a matter of corporate philanthropy and charity, something praiseworthy and allowed, but not ethically required.

Over the last two decades, many corporations have established ethics programs and have hired ethics officers who are responsible for managing corporate ethics programs. Ethics officers do a great deal of good and effective work, but it is fair to say that much of their work focuses on legal compliance issues. Of course, the environment varies considerably from company to company and industry to industry. The Sarbanes-Oxley Act, the U.S. law established after the Enron scandal, created a dramatic and vast new layer of legal compliance issues for companies doing business in the United States. But is compliance with the law all that is required to behave ethically? In order to move forward to our discussion of ethics as a more effective guidepost for decision making, let us briefly explore at this point several persuasive reasons that legal compliance alone is insufficient.

1. Believing that obedience to the law is sufficient to fulfill one's ethical duties raises questions of whether the law, itself, is ethical. Dramatic examples from history, including Nazi Germany and apartheid in South Africa, demonstrate that one's ethical responsibility may run counter to the law. On a more practical level, this question can have significant implications in a global economy in which businesses operate in countries with legal systems different from those of their home country. For instance, some countries permit discrimination on the basis of gender and some strictly censure internet content. A firm that does business in such a country must decide whether to obey the local law or remain true to ethical principles. From the perspective of ethics, a business does not avoid its need to consider ethical responsibilities just by obeying the law because sometimes it may have to decide if the law itself deserves to be obeyed.
2. Societies that value individual freedom will be reluctant to legally require more than just an ethical minimum. Such liberal societies will seek legally to prohibit the most serious ethical harms, although they will not legally require acts of charity, common decency, and personal integrity that may otherwise constitute the social fabric of a developed culture. The law can be an efficient mechanism to prevent serious harms, but it is not very effective at promoting "goods." Even if it were, the cost in human freedom of legally requiring such things as personal integrity would be extremely high. What would a society be like if it legally required parents to love their children, or even had a law that prohibited lying under all circumstances?
3. On a more practical level, a business acting as if its ethical responsibilities end with obedience to the law is just inviting more legal regulation. Consider the difficulty of trying to create laws to cover each and every possible business challenge; the task would require such specificity that the number of regulated areas would become unmanageable. Additionally, it was the failure of personal ethics among such companies as Enron, after all, that led to the creation of

Reality Check *Are Business Executives Perceived as Corrupt?*

Transparency International: Perceived Corruption in Business

Transparency International asked people worldwide to respond to this statement: **"How many business executives in your country do you think are involved in corruption?"** Responses saying "most" or "all" from selected countries are displayed below.

Country	Most	All
Australia	16%	5%
Brazil	25%	10%
Chile	31%	25%
China	9%	2%
Egypt	28%	11%
France	14%	3%
Ghana	29%	10%
Japan	15%	2%
Russia	18%	9%
United Kingdom	15%	6%
United States	25%	10%

Source: Data extracted from Transparency International; Putting Corruption out of Business: Business' Responsibility; www.transparency.org/research/bps2011.

the Sarbanes-Oxley Act and the corruption of subprime mortgage lending that led to the creation of the Consumer Financial Protection Bureau. If business restricts its ethical responsibilities to obedience to the law, it should not be surprised to find a new wave of government regulations and legal restrictions. Public perception of business can play a major role in what laws are created to regulate business. See the two Reality Checks "Are Business Executives Perceived as Corrupt?" and "Ethics in the Corporate World."

4. The law cannot anticipate every new ethical issue that businesses might face, so often there may not be a regulation for the particular dilemma that confronts a business leader. For example, when workplace email was in its infancy, laws regarding who actually owned the email transmissions (the employee or the employer) were not yet in place. As a result, one had no choice but to rely on the ethical decision-making processes of those in power to respect the appropriate boundaries of employee privacy while also adequately managing the workplace (see Chapter 7 for a more complete discussion of the legal implications of workplace monitoring). When new quandaries arise, one must be able to rely on ethics because the law might not yet—or might never—provide a solution.

Reality Check *Ethics in the Corporate World*

It's no secret that a substantial portion of the public has trouble trusting corporate CEOs. Every time another corporate scandal makes headlines, chatter increases about the fundamental untrustworthiness of business in general, and of business leaders in particular. But just how little does the public trust CEOs? And how does the public's trust in CEOs differ from their trust in members of other occupations and professions? In 2014, the Ted Rogers Leadership Centre at Ryerson University (in Toronto, Canada) conducted a national survey to ask Canadians their perceptions of the ethics of political leadership. One question they asked is: "In general, how much do you trust members of the following professions to behave ethically in their roles—that is, to live up to both public and professional standards in fulfilling their duties?"

Here are the percentages of respondents who indicated that they trust members of the following professions to behave ethically:

Doctors: 78 percent

Judges: 65 percent

Police officers: 60 percent

Public servants: 36 percent

Journalists: 33 percent

Business CEOs: 22 percent

Union leaders: 20 percent

Political staff: 16 percent

Politicians: 13 percent

Lobbyists: 9 percent

Of course, there are important questions about just how to interpret such data. It is worth noting that these numbers suggest a correlation between how much we *trust* various professions and how familiar we are with what they do. Most people know and rely on their family physician, and most people have a pretty good idea of what a judge does. On the other hand, fewer people understand what a CEO does. So what is expressed as a lack of trust *may* just reflect a lack of understanding. Or it might not! But we should always consider a range of explanations in the face of data such as these.

Source: "Public Perceptions of the Ethics of Political Leadership," *Ted Rogers Leadership Centre* (November 5, 2014), www.ethicssurvey.ca (accessed June 6, 2016). The survey was conducted among a nationally representative sample of n = 1,039 Canadians between October 17 and 22, 2014, using an online panel.

5. Finally, the perspective that compliance is enough relies on a misleading understanding of law. To say that all a business needs to do is obey the law suggests that laws are clear-cut, unambiguous rules that can be easily applied. This rule model of law is very common, but it is not quite accurate. Some laws—speed limits on highways, for example—are clear and unambiguous. But many other laws, especially in the area of civil law that governs most commercial transactions, are not. Of course, if the law was clear and unambiguous, there would not be much of a role for lawyers and courts.

These considerations demonstrate that business cannot avoid making ethical judgments, even if it is fully committed to obeying the law. Consider, for example, what would be required of a business committed to obeying the legal requirements established by a law such as the Americans with Disabilities Act (ADA). Like similar laws in many countries, this law requires American employers to make reasonable accommodations for employees with disabilities. (In the United Kingdom, the comparable law is called the Equality Act, 2010. In Canada, where employment law is a provincial matter, there are laws such as the Ontarians with Disabilities Act, 2002, and the Accessibility for Manitobans Act, 2013.) All of these laws use such ambiguous terms as "reasonable" or "barriers" or even the word "disability" itself. But what counts as a disability and what would be considered a "reasonable" accommodation? What creates a barrier to employment? Over the years, claims have been made that relevant disabilities include obesity, depression, dyslexia, arthritis, hearing loss, high blood pressure, facial scars, and the fear of heights. Whether such conditions are covered under the law depends on a number of factors, including the severity of the illness and the effect it has on the employee's ability to work, among others. Imagine that you are a corporate human resource manager and an employee asks you to reasonably accommodate his allergy. How would you decide whether allergies constitute a disability under the ADA?

In general, most of the laws that concern business are based on the common law of past cases that establish legal precedents. Each precedent applies general rules to the specific circumstances of an individual case. The law provides general guidance to make "reasonable accommodations" for a "disability." But courts decide, on a case-by-case basis, whether some action was or was not reasonable or whether this condition is or is not a disability. In most business situations, asking, "Is this legal?" is really asking, "Are these circumstances similar enough to past cases that the conclusions reached in those cases will also apply here?" Because there will always be some differences among cases, the question will always remain somewhat open. Thus, there is no unambiguous answer for the conscientious business manager who wishes only to obey the law. There are few situations where a decision maker can simply find the applicable rule, apply it to the situation, and deduce an answer from it. The decision maker cannot avoid responsibility for her own judgment of what should be done.

Without aiming to criticize the legal profession (especially because one of the authors of this text has a legal background!) but merely to demonstrate the preceding ambiguity, it is worth remembering that many of the people involved in the wave of recent corporate scandals were themselves lawyers. In the Enron case, for example, corporate attorneys and accountants were famously encouraged to "push the envelope" of what was legal. Especially in civil law (as opposed to criminal law), where much of the law is established by past precedent, as described earlier, there is always room for ambiguity in applying the law. Further, in civil law there is a real sense that one has not done anything illegal unless and until a court decides that one has violated a law. This means that if no one files a lawsuit to challenge an action, it is *perceived as* legal.

As some theories of corporate social responsibility suggest, if a corporate manager is told that she has a responsibility to maximize profits within the law, a competent manager will go to her corporate attorneys and tax accountants and ask what the law allows. Or ask those professionals to "push the envelope" to see what they can legally get away with, and that typically means what they would be willing to defend in court. A responsible attorney or accountant will advise how far the manager can reasonably go before it would obviously be illegal. In this situation, the question is whether a manager has a *responsibility* to "push the envelope" of legality in pursuit of profits.

Most of the cases of corporate scandal mentioned at the start of this chapter involved attorneys and accountants who advised their clients or bosses that what they were doing could be defended in court. The off-book partnerships that were at the

risk assessment
A process to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

heart of the collapse of Enron and Arthur Andersen were designed with the advice of attorneys who thought that, if challenged, they had at least a reasonable chance of winning in court. In the business environment, this strategy falls within the domain of organizational **risk assessment,** defined as "a process . . . to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."[9] Accordingly, the decision to "push the envelope" becomes a balance of risk assessment, cost–benefit analysis, and ethics—what is the corporation willing to do, *willing to risk?* Using this model, decision makers might include in their assessment before taking action:

- The likelihood of being challenged in court.
- The likelihood of losing the case.
- The likelihood of settling for financial damages.
- A comparison of those costs.
- The financial benefits of taking the action.
- The ethical implication of the options available.

It is important to recognize that risk assessment is not simply a value-neutral process of professional judgment. While determining the *likelihood* of one particular outcome versus another can be a professional judgment for attorneys and accountants, deciding whether the risk is worth taking is not. That, ultimately, is a value judgment, and when the risks involve potential harms and benefits to a variety of stakeholders, it is a judgment that involves ethics as well.

Because the law is often ambiguous—because in many cases it simply is not clear what the law requires—there is seldom certainty with regard to these decisions. Therefore, business managers will often face decisions that will require their ethical judgments. To suggest otherwise simply presents a false picture of corporate reality. Thus, even those businesspeople who are committed to strictly obeying the law will be confronted on a regular basis by the fundamental ethical questions: What should I do? How should I live?

As suggested earlier, whether we step back and explicitly ask these questions, each of us implicitly answers them every time we make a decision about how to act. Responsible decision making requires that we *do* step back and reflect on them, and then consciously choose the values by which we make decisions. No doubt this is a daunting task, even for experienced, seasoned leaders. Fortunately, we are not alone in meeting this challenge. There can be better and worse ways to think about ethical issues and make decisions on how to act.

Business Ethics as Ethical Decision Making

As the title of this book suggests, our approach to business ethics will emphasize **ethical decision making.** No book can magically create ethically responsible people or change behavior in any direct way, and that's certainly not our goal here. But students can learn and practice responsible and accountable ways of thinking and deliberating. We believe that decisions that follow from a process of thoughtful and conscientious reasoning will be more responsible and ethical. In other words, *responsible decision making and deliberation will result in more responsible behavior.*

So what, exactly, is the goal of a business ethics course? On one hand, *ethics* refers to an academic discipline with a centuries-old history; we might expect knowledge about this history to be among the primary goals of a class in ethics. Thus, in an ethics course, students might be expected to learn about the great ethicists of history such as Aristotle, John Stuart Mill, and Immanuel Kant. As in many other courses on other subjects, this approach to ethics would focus on the *informational content* of the class.

Yet, ethical theories and the history of ethics can seem beside the point. Many observers, including some businesses looking to hire college graduates, business schools, and business students, expect an ethics class to address, if not produce, ethical *behavior,* not just information and knowledge about ethics. After all, what good is an ethics class if it does not help prevent future scandals such as Wells Fargo or Enron? Knowledge *about* ethics is one thing, but ethical *behavior* is another, and many believe that it is the behavior not the knowledge that should be the goal of a business ethics class.

ethics
Derived from the Greek word *ethos,* which refers to those values, norms, beliefs, and expectations that determine how people within a culture live and act. Ethics steps back from such standards for how people *do* act, and reflects on the standards by which people *should* live and act. At its most basic level, ethics is concerned with how we act and how we live our lives. Ethics involves what is perhaps the most monumental question any human being can ask: How *should* we live? Following from this original Greek usage, ethics can refer to both the standards by which an individual chooses to live her or his own personal life and the standards by which individuals live in community with others (see also *morality*). As a branch of philosophy, ethics is the discipline that systematically studies questions of how we ought to live our lives.

For our purposes, **ethics** refers not only to an academic discipline, but also to that arena of human life studied by this academic discipline, namely, *how human beings should properly live their lives.* We believe that business ethics should aim for both knowledge about ethics and more responsible behavior. And we believe the tools provided in this book will better equip students to think clearly about such questions. At very least, after taking a course based on this book, you should be better equipped than the average person to think clearly about ethical issues in business, and to offer a reasoned point of view about those issues.

A caution about influencing behavior within a classroom is appropriate here. Part of the hesitation about teaching ethics involves the potential for abuse; should teachers be promoting particular ethical views in the classroom? Many believe that teachers should remain value-neutral in the classroom and not try to impose their own views on students. Part of this concern is that the line between motivating students and manipulating students is a narrow one. There are many ways to influence someone's behavior, including threats, guilt, pressure, bullying, and intimidation. Some of the executives involved in the worst of the recent corporate scandals were very good at using some of these methods to motivate the people who worked for them. Presumably, none of these approaches belong in a university classroom, and certainly not in an ethical classroom.

But the alternative is not to abandon any hopes of contributing to a more ethical business climate. Not all forms of influencing behavior raise concerns about manipulating or coercing behavior. There is a big difference between manipulating someone and persuading someone, between threatening (unethical) and reasoning (more likely ethical). This textbook resolves the tension between influencing behavior and manipulation by emphasizing ethical judgment and ethical decision making. We agree with those who believe that an ethics class should attempt to produce more ethical *behavior* among the students who enroll. But we believe that the only academically and ethically legitimate way to achieve this objective is through careful and reasoned decision making. Our fundamental assumption is that a process of rational decision making, a process that involves careful thought and deliberation, can and will result in behavior that is more reasonable, accountable, and ethical.

Perhaps this is not surprising after all. Consider any course within a business school curriculum. Most people would agree that a management course aims to create better managers. And any finance or accounting course that denied a connection between the course material and financial or accounting practice would likely be counted as a failure. Every course in a business school assumes a connection between what is taught in the classroom and appropriate business behavior. Classes in management, accounting, finance, and marketing all aim to influence students' behavior. We assume that the knowledge and reasoning skills learned in the classroom will lead to better decision making and, therefore, better behavior within a business context. A business ethics class follows this same approach.

normative ethics
As a *normative* discipline, ethics deals with norms and standards of appropriate and proper (normal) behavior. Norms establish the guidelines or standards for determining what we should do, how we should act, what type of person we should be. Contrast with *descriptive ethics.*

While few teachers think that it is our role to *tell* students the right answers and to *proclaim* what students ought to think and how they ought to live, still fewer think that there should be no connection between knowledge and behavior. Our role should not be to preach our own ethical beliefs to a passive audience, but instead to treat students as active learners and to engage them in an active process of thinking, questioning, and deliberating. Taking Socrates as our model, philosophical ethics rejects the view that passive obedience to authority or the simple acceptance of customary norms is an adequate ethical perspective. Teaching ethics must, in this view, challenge students to *think for themselves.*

Business Ethics as Personal Integrity and Social Responsibility

descriptive ethics
As practiced by many social scientists, provides a descriptive and empirical account of those standards that actually guide behavior, as opposed to those standards that should guide behavior. Contrast with *normative ethics.*

At its most basic level, ethics is concerned with deciding how we act and how we live our lives. Ethics involves what is perhaps the most monumental question any human being can ask: *How should we live?* Ethics is, in this sense, *practical,* having to do with how we act, choose, behave, and do things. Philosophers often emphasize that ethics is **normative,** which means that it deals with our reasoning about how we *should* act. Social sciences, such as psychology and sociology, also examine human decision making and actions; but these sciences are **descriptive** rather than normative. When we say that they are descriptive, we refer to the fact that they provide an account of how and why people *do* act the way they do—they describe; as a normative discipline, ethics seeks an account of how and why people *should* act a certain way, rather than how they *do* act. (For an exploration of some of the relevant factors in such a decision, see the Decision Point "Management and Ethics.")

5 OBJECTIVE

How should we live? This fundamental question of ethics can be interpreted in two ways. "We" can mean each one of us individually, or it might mean all of us collectively. In the first sense, this is a question about how I should live my life, how I should act, what I should do, and what kind of person I should be. This meaning of ethics is based on our value structures, defined by our moral systems;

Decision Point *Management and Ethics*

Imagine that you are examining this chapter's Opening Decision Point in one of your classes on marketing or organizational behavior. What conclusions would you reach about who or what is responsible? What advice would you offer to Wells Fargo or government regulators to prevent a repetition of what happened? After offering your analysis and recommendations, reflect on your own thinking and describe what values underlie those recommendations.

1. What facts would help you make your decision?
2. What aspects of this case raise values that are particular to managers?
3. What stakeholders should be involved in your advice?
4. What values do you rely on in offering your advice?

morality
Sometimes used to denote the phenomena studied by the field of ethics. This text uses *morality* to refer to those aspects of ethics involving personal, individual decision making. "How should I live my life?" or "What type of person ought I be?" are taken to be the basic questions of morality. Morality can be distinguished from questions of *social justice,* which address issues of how communities and social organizations ought to be structured.

personal integrity
The term *integrity* connotes completeness of a being or thing. Personal integrity, therefore, refers to individuals' completeness within themselves, often derived from the consistency or alignment of actions with deeply held beliefs.

and, therefore, it is sometimes referred to as **morality.** It is the aspect of ethics that we refer to by the phrase "**personal integrity.**" There will be many times within a business setting where an individual will need to step back and ask: What should I do? How should I act? Imagine that you were a personal banker working at Wells Fargo and your supervisor directed you to open up a new account for an existing customer without that customer's knowledge. What would you do? If morals refer to the underlying values on which our decisions are based, ethics refers to the applications of those morals to the decisions themselves. So, an individual could have a moral value of honesty, which, when applied to her or his decisions, results in a refusal to process a fraudulent account.

In the second sense, "How should we live?" refers to how we live *together* in a *community.* This is a question about how a society and social institutions, such as corporations, ought to be structured and about how we ought to live together. This area is sometimes referred to as **social ethics,** and it raises questions of justice, public policy, law, civic virtues, organizational structure, and political philosophy. In this sense, business ethics is concerned with how business institutions ought to be structured, about whether they have a responsibility to the greater society (corporate social responsibility, or CSR), and about making decisions that will have an impact on many people other than the individual decision maker. This aspect of business ethics asks us to examine business institutions from a social rather than from an individual perspective. Thus, we might conclude that Wells Fargo's cross-selling practices were unethical. We refer to this broader social aspect of ethics as decision making for *social responsibility.*

In essence, managerial decision making will always involve both of these aspects of ethics. Each decision that a business manager makes involves not only a personal decision but also a decision on behalf of, and in the name of, an organization that exists within a particular social, legal, and political environment. Thus, our book's title makes reference to both aspects of business ethics. Within a business setting, individuals will constantly be asked to make decisions affecting both their own personal integrity and their social responsibilities.

social ethics
The area of ethics that is concerned with how we should live together with others and how social organizations ought to be structured. Social ethics involves questions of political, economic, civic, and cultural norms aimed at promoting human well-being.

Expressed in terms of how we should live, the major reason to study ethics becomes clear. Whether we explicitly *examine* these questions, each and every one of us *answers* them every day through our behaviors in the course of living our lives. Whatever decisions business managers make, they will have taken a stand on ethical issues, at least implicitly. The actions each one of us takes and the lives we lead give very practical and unavoidable answers to fundamental ethical questions. We therefore make a very real choice as to whether we answer them deliberately or unconsciously. Philosophical ethics merely asks us to step back from these implicit everyday decisions to examine and evaluate them. More than 2,000 years ago Socrates gave the philosophical answer to why you should study ethics: "The unexamined life is not worth living."

To distinguish ethics from other practical decisions faced within business, consider two approaches to the Enbridge oil spill scenario in the Decision Point "Ethics after an Oil Spill." This case could just as well be examined in a management, human resource, business law, or organizational behavior class as in an ethics class. The more social-scientific approach common in management or business administration classes would examine the situation and the decision by exploring the factors that led to one decision rather than another or by asking why the manager acted in the way that he did.

norms
Those standards or guidelines that establish appropriate and proper behavior. Norms can be established by such diverse perspectives as economics, etiquette, or ethics.

A second approach to the Enbridge case, from the perspective of ethics, steps back from the facts of the situation to ask what *should* the manager do? What *rights and responsibilities* are involved? What *good* will come from this situation? Is Enbridge being *fair, just, virtuous, kind, loyal, trustworthy?* This normative approach to business is at the center of business ethics. Ethical decision making involves the basic categories, concepts, and language of ethics: *shoulds, oughts, rights* and *responsibilities, goodness, fairness, justice, virtue, kindness, loyalty, trustworthiness,* and *honesty.*

6 OBJECTIVE

To say that ethics is a *normative* discipline is to say that it deals with **norms:** those standards of appropriate and proper (or "normal") behavior. Norms establish the guidelines or standards for determining what we should do, how we should act, and what type of person we should be. Another way of expressing this point is to say that norms appeal to certain values that would be promoted or attained by acting in a certain way. Normative disciplines presuppose some underlying values.

values
Those beliefs that incline us to act or to choose in one way rather than another. We can recognize many different types of values: financial, religious, legal, historical, nutritional, political, scientific, and aesthetic. Ethical values serve the ends of human well-being in impartial, rather than personal or selfish, ways.

But to say that ethics is a normative discipline is not to say that all normative disciplines involve the study or discipline of ethics. After all, business management and business administration are also normative, are they not? Are there not norms for business managers that presuppose a set of business values? One could add accounting and auditing to this list, as well as economics, finance, politics, and the law. Each of these disciplines appeals to a set of values to establish the norms of appropriate behavior within each field.

These examples suggest that there are many different types of norms and values. Returning to our distinction between values and ethics, we can think of **values** as the underlying beliefs that cause us to act or to decide one way rather than another. Thus, the value that I place on an education *leads me to make the decision* to study this evening, rather than to play video games. I believe that education is more

Decision Point

Ethics after an Oil Spill[10]

In August 2011, it was reported that an oil pipeline, owned by the energy company Enbridge, had sprung a leak near the tiny, remote town of Wrigley in Canada's Northwest Territories. Not surprisingly, residents were unhappy about the spill, confronting Enbridge with the twin dilemmas of how to clean it up and what to do about the people of Wrigley. More generally, managers at Enbridge had to figure out, in the wake of the leak, what their obligations would be, and to whom those obligations were owed.

Wrigley—slightly farther north than Anchorage, Alaska, but much farther inland—in 2011 had a population of about 165. Most community residents are members of the Canadian aboriginal group known as the Dené. Citizens of the town of Wrigley have very low levels of education—most of the population has received no formal education whatsoever. More than half of the community is unemployed. Poverty and access to the basic amenities of modern life are a serious challenge. At present, there isn't even a year-round road into the town. They maintain a traditional lifestyle based on hunting, fishing, and trapping, one that leaves them almost entirely dependent on the health of local forests and waterways. Environmental protection isn't just a question of principle for the people of Wrigley; it's a matter of survival.

After the spill was discovered, it was estimated that 1,500 barrels of oil had leaked, but company officials said luckily none of the oil had reached the nearby Willowlake River. Locals were skeptical, with some claiming that the water now tasted odd. Immediately after the spill was discovered, the company devised a detailed cleanup plan—a document more than 600 pages long. But locals were not impressed and said the complex technical document was too difficult to understand. When the company offered $5,000 so that the community could hire its own experts to evaluate the plan, locals were offended. How could a rich oil company insult them that way, first polluting their land and then offering such a tiny payment?

For Enbridge, the spill was a significant blow to its ongoing effort to maintain a positive image. Just a year earlier, in the summer of 2010, the company had made headlines when one of its pipelines ruptured in Michigan, spilling more than 20,000 barrels of oil into local rivers. At the time, Enbridge was in the midst of trying to win approval for its proposed Northern Gateway Pipeline project and faced serious opposition from environmental groups and aboriginal communities.

The company faced a number of difficult issues in the wake of the Wrigley spill. The first concern, clearly, would be to clean up the spilled oil. Then there was the issue of remediation—the process of attempting to restore the polluted land back to something like its original state. Further, there was the question of whether and how to compensate the local community for the pollution and loss of use of some of their traditional hunting grounds. All of this was set against a backdrop of controversy surrounding the impact that oil pipelines have on the lands and communities through which they run.

1. What do you think motivated the company's decision to offer the community $5,000 to hire its own expert? Why do you think the community was insulted? If you were the company's local manager, what would you have done?
2. What facts would be helpful to you, as an outsider, in evaluating the company's behavior after the spill?

(*continued*)

(*concluded*)

3. What values are involved in this situation? How would Enbridge answer that question internally? How would the people of Wrigley answer that question, if asked?
4. Did Enbridge have obligations that went beyond cleaning up the area directly affected by the spill from the company's pipeline? Was it obligated to offer the $5,000? Consider the suggestion made by a member of the community that Enbridge should donate money to build a swimming pool or hockey arena for local kids. Would a donation of this kind help satisfy the company's obligations to the community?

worthy, or valuable, than playing games. I make the decision to spend my money on groceries rather than on a vacation because I value food more than relaxation. A company's core values, for example, are those beliefs that provide the ultimate guide to its decision making.

Understood in this way, many different types of values can be recognized: financial, religious, legal, historical, nutritional, political, scientific, and aesthetic. Individuals can have their own personal values and, importantly, institutions also have values. Talk of a corporation's culture is a way of saying that a corporation has a set of identifiable values that establish the expectations for what is normal within that firm. These norms guide employees, implicitly more often than not, to behave in ways that the firm values and finds worthy. One important implication of this guidance, of course, is that an individual's or a corporation's set of values may lead to either *ethical* or *unethical* results. The corporate culture at Wells Fargo, for example, seems to have been committed to pushing cross-selling as far as possible in pursuit of profit. Values? Yes. Ethical values? No.

One way to distinguish these various types of values is in terms of the ends or goals they serve. Financial values serve monetary ends; religious values serve spiritual ends; aesthetic values serve the ends of beauty; legal values serve law, order, and justice; and so forth. Different types of values are distinguished by the various ends served by those acts and choices. How are ethical values to be distinguished from these other types of values? What ends do ethics serve?

ethical values
Those properties of life that contribute to human well-being and a life well lived. Ethical values would include such things as happiness, respect, dignity, integrity, freedom, companionship, and health.

Values, in general, were earlier described as those beliefs that incline us to act or choose in one way rather than another. Consider again the harms attributed to the ethical failures of Wells Fargo. Thousands of innocent people were hurt by the decisions made by some individuals seeking to boost corporate income or their own salaries. This example reveals two important elements of **ethical values.** First, ethical values serve the ends of human well-being. Acts and decisions that seek to promote human welfare are acts and decisions based on ethical values. Controversy may arise when we try to define human well-being, but we can start with some general observations. Happiness certainly is a part of it, as are respect, dignity, integrity, and meaning. Freedom and autonomy surely seem to be necessary elements of human well-being, as are companionship and health.

Second, the well-being promoted by ethical values is not a personal and selfish well-being. After all, Wells Fargo and all the other corporate scandals we've mentioned resulted from many individuals seeking to promote their own well-being. Ethics requires that the promotion of human well-being be done impartially. From the perspective of ethics, no one person's welfare is more worthy than any other's. Ethical acts and choices should be acceptable and reasonable from all relevant points of view. Thus, we can offer an initial characterization of ethics and ethical values: *Ethical values are those values—those decision-guiding beliefs—that impartially promote human well-being.*

7

OBJECTIVE

practical reasoning
Involves reasoning about what one ought to do, contrasted with *theoretical reasoning,* which is concerned with what one ought to believe. Ethics is a part of practical reason.

theoretical reasoning
Involves reasoning that is aimed at establishing truth and therefore at what we ought to believe. Contrast with *practical reasoning,* which aims at determining what is reasonable for us to do.

We described ethics as *practical* and *normative,* having to do with our actions, choices, decisions, and *reasoning* about how we should act. Ethics is therefore a vital element of **practical reasoning**—reasoning about what we should do—and is distinguished from **theoretical reasoning**, which is reasoning about what we should *believe.* This book's perspective on ethical decision making is squarely within this understanding of ethics' role as a part of practical reason.

Thinking of ethics as a type of practical reason helps us be clear about what we an expect of ethics. Many think that ethics should be able to prove its conclusions, and it can be tempting to believe that if you cannot do that, then there can be no way to establish or justify ethical judgments. If one cannot "prove" what is right or wrong, then why bother doing ethics? Aristotle used the distinction between practical reasoning and theoretical reasoning to show the mistake in this way of thinking.

Theoretical reason is the pursuit of truth, which is the highest standard for what we should believe. According to this tradition, science is the great arbiter of truth. Science provides the methods and procedures for determining what is true, and it does that by establishing what counts as a "proof" in science. Thus, the scientific method can be thought of as the answer to the fundamental questions of theoretical reason: What should we believe? So the question arises, is there a comparable methodology or procedure for deciding what we should do and how we should act?

The simple answer is that there is no single methodology that can in every situation provide one clear and unequivocal answer to that question. But there are guidelines that can provide direction and criteria for decisions that are more or less reasonable and responsible. The goal of practical reason is not to establish what is true and what you should believe, but what is reasonable to do. We suggest that the traditions and theories of philosophical ethics can be thought of as contributing to reasonable decision making in just this way. Over thousands of years of thinking about the fundamental questions of how human beings should live, philosophers have developed and refined a variety of approaches to ethical questions. These traditions, or what are often referred to as ethical theories, explain and defend various norms, standards, values, and principles that contribute to responsible ethical decision making. Ethical theories are patterns of thinking, or methodologies, to help us decide what is reasonable to do.

The following chapter will introduce a model for making ethically responsible decisions. This can be considered as a model of practical reasoning in the sense that, if you walk through these steps in making a decision about what to do, you

Opening Decision Point Revisited *Wells Fargo: Individual Misconduct or Failure of Culture?*

As of April 2019, Wells Fargo had been penalized more than $1.5 billion for its actions during this scandal by state and federal governments. In addition, the company had paid more than $600 million to settle various lawsuits resulting from the scandal. As further punishment, the U.S. Federal Reserve Bank prohibited Wells Fargo from expanding its banking business in the United States until such time that it could demonstrate that it had significantly changed the culture in ways that would prevent these frauds from happening again. As of April 2019, that prohibition had still not been lifted.

In March 2019, the *New York Times* published a follow-up story to the Wells Fargo case that suggested that challenges remain. This article pointed out that while senior executives were claiming that abuses have been addressed and the Wells Fargo culture had changed, interviews with employees across the United States described a corporate culture in which many of the high-pressure sales practices that led to the scandal continued.

Employees described a gap between corporate words and deeds of actual practice. While senior executives claimed that safeguards were in place to prevent a reoccurrence of past practices, employees at local branch offices described a culture where aggressive sales targets continued in place. Employees were quoted as describing corporate claims of improvement as “superficial” and “doublespeak,” aimed at creating good public relations but not actually changing much in the local offices.

As an example, corporate executives pointed out that Wells Fargo had greatly reduced the use of bonuses tied to sales targets to compensate employees. This change in the incentive system was aimed at reducing the pressure on employees to sell more products. Yet, employees claimed that one result of this was a loss of income for employees, while corresponding sales targets were kept steady, or in some cases even increased. It was not lost on employees that during this same period, Wells Fargo CEO Timothy Sloan received $17 million in compensation, an increase of 36% over the previous year.

This apparent disconnect between corporate statements and the perceived reality at branch offices has been an ongoing challenge for Wells Fargo. Reflect back to the explanation offered by former CEO John Stumpf when the scandal first became public. Stumpf attributed responsibility to dishonest individuals while denying any corporate or systemic problems. Stumpf’s explanation for how the fraud became so widespread was to suggest that employees were simply learning from each other by word of mouth.

This Wells Fargo case provides a good opportunity to reflect on the various levels at which ethical analysis must take place. There are decisions being made by individuals in various roles, from entry-level tellers, to mid-level personal bankers, loan officers, and branch managers, to senior executives. Yet, there is also a corporate and organizational reality that significantly affects the decisions that individuals make. While often subtle, this corporate culture plays a powerful role in decision making, and figuring out the interaction between individual decisions and corporate culture is an important element of business ethics. (Chapter 4 will examine the topic of corporate culture in detail.)

Reflect on two extreme interpretations of what happened at Wells Fargo. On one hand, as Stumpf's initial response seemed to suggest, we had a situation in which thousands of "dishonest" individuals, relying on word of mouth, chose to make unethical decisions and defraud thousands of customers. Somehow the organization was unable to prevent this from happening and, as a result, the organization itself became corrupted by the actions of its individual members. Thus, the organization's remaining responsibility is to create structures and policies to prevent dishonest people from acting on their unethical motivations.

On the other hand, as the employees interviewed by the *New York Times* seemed to suggest, individuals who are basically decent and honest found themselves in an organization that rewarded malfeasance and discouraged honesty. It established policies and practices that created an environment in which corruption flourished. Otherwise, good people ended up committing unethical acts because this is what the organization expected and rewarded.

Return to the discussion questions at the end of the opening case and consider where you would assign responsibility in the Wells Fargo case. Who or what is most at fault? What most needs to change in order to prevent a reoccurrence?

would certainly be making a decision grounded in sound reasoning. You will not be able to "prove" that your judgment is true in the way that science can establish truth, but a judgment that results from a careful step-by-step process will be more reasonable than one that does not. The decision-making model outlined in the following chapter offers one such process. The ethical traditions and theories that we describe in Chapter 3 will help flesh out and elaborate on this decision procedure. Other approaches are possible, and this approach will not guarantee one single and absolute answer to every decision. But this is a helpful beginning in the development of responsible, reasonable, and ethical decision making.

Questions, Projects, and Exercises

1. Questions of ethics and values also arise frequently in a variety of university courses—particularly in business and professional schools. Are there other courses in your school's curriculum that talk about "the right thing to do," without necessarily using words such as *ethics* or *social responsibility?* How do courses in economics and finance involved value dimensions?
2. Why might legal rules be insufficient for fulfilling one's ethical responsibilities? Can you think of cases in which a businessperson has done something that is legally permitted but ethically wrong? What about the opposite—are there situations in which a businessperson might have acted in a way that was legally wrong but ethically right?
3. What might be some benefits and costs of acting unethically in business? Distinguish between benefits and harms to the individual and benefits and harms to the firm.
4. Review the distinction between personal morality and matters of social ethics. Can you think of cases in which some decisions would be valuable as a matter of social policy but bad as a matter of personal ethics? Something good as a matter of personal ethics and bad as a matter of social policy?

5. As described in this chapter, the Americans with Disabilities Act requires firms to make reasonable accommodations for employees with disabilities. Consider such conditions as obesity, depression, dyslexia, arthritis, hearing loss, high blood pressure, facial scars, mood disorders, allergies, attention deficit disorders, post-traumatic stress syndrome, and the fear of heights. Imagine that you are a human resource manager and an employee asks that accommodations be made for these conditions. Under what circumstances might these conditions be serious enough impairments to deserve legal protection? What factors would you consider in answering this question? After making these decisions, reflect on whether your decision was more a legal or ethical decision.
6. Do an internet search for recent news stories about oil spills. Do any of those stories report behaviors that seem especially wise or unwise on the part of the oil companies involved? Do you think that controversies over big pipeline projects like the Keystone pipeline alter how people evaluate the ethics of oil-spill cleanups?
7. Construct a list of all the people who were adversely affected by the Wells Fargo case. Who, among these people, would you say had their rights violated? What responsibilities, if any, did Wells Fargo have to each of these constituencies?
8. Do "ethical" behaviors need to be grounded in ethical values in order to be considered ethically *good?* If a business performs a socially beneficial act in order to receive good publicity, or if it creates an ethical culture as a business strategy, has the business acted in a less-than-ethically praiseworthy way? Is thinking of ethics as "good for business" misleading or just practical?
9. During the recession of 2008–2009, many reputable companies suffered bankruptcies while others struggled to survive. Of those that did remain, some chose to reduce the size of their workforces significantly. Imagine yourself helping run a company during such a recession. Imagine the company that has been doing fairly well, posting profits every quarter and showing a sustainable growth expectation for the future; however, the general uneasiness in the market has caused the company's stock price to fall. In response to this problem, the CEO decides to lay off some of her employees, hoping to cut costs and to improve the bottom line. This action raises investor confidence and, consequently, the stock price goes up. What is your impression of the CEO's decision? Was there any kind of ethical lapse in laying off the employees, or was it a practical decision necessary for the survival of the company?
10. Every year, *Ethisphere Magazine* publishes a list of the world's most ethical companies. Go to its website and find and evaluate its rating methodology and criteria. Then engage in an assessment (that is, provide suggestions for any modifications you might make for a more or less comprehensive list, and so on).

Key Terms

After reading this chapter, you should have a clear understanding of the following key terms. For a complete definition, please see the Glossary.

descriptive ethics, *p. 20*
ethical values, *p. 24*
ethics, *p. 19*
morality, *p. 21*
normative ethics, *p. 20*
norms, *p. 22*
personal integrity, *p. 21*
practical reasoning, *p. 25*
psychological egoism, *p. 11*
risk assessment, *p. 18*
separation thesis, *p. 9*
social ethics, *p. 21*
stakeholder, *p. 12*
theoretical reasoning, *p. 25*
values, *p. 22*

Endnotes

1. Decision points appear throughout each chapter in the text. These challenges are designed to introduce the concepts discussed in each chapter by raising the ethical issues in real-life cases. Discussion of these cases should introduce the ethical issues and various perspectives that might be taken on each.
2. Source: Testimony of Wells Fargo John Stumpf in front of the Senate Banking Committee, Sept. 20, 2016.
3. This case was developed from E. Scott Reckard, "Wells Fargo's Pressure-Cooker Sales Culture Comes at a Cost," *Los Angeles Times* (December 21, 2013, www.latimes.com/business/la-fi-wells-fargo-sale-pressure-20131222-story.html; Emily Flitter and Stacy Cowley, "Wells Fargo Says Its Culture Has Changed. Some Employees Disagree." (March 9, 2019), www.nytimes.com/2019/03/09/business/wells-fargo-sales-culture.html?action=click&module=Top%20Stories&pgtype=Homepage.
4. A critique of the separation thesis can be found in R. Edward Freeman and Jared D. Harris, "The Impossibility of the Separation Thesis, "*Business Ethics Quarterly* 18, no. 4 (October 2008), pp. 541–48. A thorough analysis of the nuances involved in the separation thesis can be found in J. Sandberg, "Understanding the Separation Thesis," *Business Ethics Quarterly* 18, no. 2 (2008), pp. 213–32.
5. Source: Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," The New York Times Magazine (September 13, 1970)
6. The full quote from Smith is: *Every individual . . . neither intends to promote the public interest, nor knows how much he is promoting it . . . he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.* Adam Smith, *An Inquiry into the Nature and Causes of The Wealth Of Nations,* Book 4, ch. 2, p. 456, para. 9 (1776).
7. Financial Crisis Inquiry Commission, *The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States* (Washington, D.C.: Government Printing Office, January 25, 2011). Canadian data are taken fromhttps://www150.statcan.gc.ca/n1/pub/75-001-x/2009112/article/11048-eng.htm.
8. Source: Whole Foods Market IP, LLP, "Declaration of Independence," www.wholefoodsmarket .com/company/declaration.php, accessed January 15, 2012. See also Knowledge @ Wharton, "Building Companies That Leave the World a Better Place," February 28, 2007, p. 2, excerpting R. Sisodia, J. Sheth, and D. Wolfe, Firms of Endearment: How World-Class Companies Profit from Passion and Purpose (Philadelphia, PA: Wharton Business School Publishing, 2007), ch. 6.
9. Committee of Sponsoring Organizations (COSO) of the Treadway Commission, "Executive Summary," *Enterprise Risk Management–Integrated Framework,* September 2004, p. 2.
10. See "Wrigley Residents Voice Pipeline Spill Concerns," *CBC News*(August 12, 2011), www.cbc.ca/news/canada/north/story/2011/08/11/nwt-wrigley-enbridgemeeting.html (accessed July 19, 2012).

Chapter 2

Ethical Decision Making: Personal and Professional Contexts

It is very important to know who you are. To make decisions. To show who you are.

Malala Yousafzai

On an important decision one rarely has 100% of the information needed for a good decision no matter how much one spends or how long one waits. And, if one waits too long, he has a different problem and has to start all over. This is the terrible dilemma of the hesitant decision maker.

Robert Greenleaf

There are two kinds of people, those who do the work and those who take the credit. Try to be in the first group; there is less competition there.

Indira Gandhi

Opening Decision Point *Am I About to Lose My Job?: What Would You Do?*

You work for a company that is one of the major health care providers in the region. The company operates a large hospital and numerous medical offices and clinics throughout the area. Your own background is in accounting and you have worked on the business side of health care for fifteen years.[1]

Like many other industries, health care is going through a period of significant consolidation, driven largely by increasing specialization within medicine and ever-increasing costs, especially of diagnostic and treatment technologies. Given your background in accounting, you fully appreciate the economic argument for consolidation in this field. You have firsthand experience with major cost savings created by efficiencies in patient record keeping, scheduling, and, especially, insurance administration and reimbursement. However, you also believe that consolidation is in the patient's best interests as well. Once integrated into a regional medical system, patients will have greater access to specialized care and treatment, while economic efficiencies help keep costs low as well.

Two years ago, as part of its strategic plan, your company acquired another smaller health care company that operated a number of clinics in rural towns across the region. In most cases, these clinics are the only health care provider in town. A typical clinic is staffed full time by several clerical and administrative workers and several nurses with advanced diagnostic training and a license to prescribe medication. A physician is on-site several days each week. Much of the day-to-day work at the clinics involves routine medical procedures: diagnosing and treating minor illnesses, advising on wellness care, and providing routine checkups and examinations. More serious or complicated cases are scheduled when the physician is on-site, or referred to specialists at larger health care facilities.

Your own work during most of this period has been to help these individual clinics integrate their own accounting procedures and administrative operations into your company's system. You have spent time working and getting to know the employees at each of these clinics. At first, you sensed that they perceived you as an outsider who posed some threat to local operations. Employees understood that, as often occurs in many acquisitions, there was a chance that some people might lose their jobs and even some clinics might close. Nevertheless, they soon realized that your work was aimed to help them integrate their operations into your company's system, and over time you succeeded in creating relationships of trust and mutual respect with many of the employees.

More recently, however, you have been asked to assist senior management in analyzing the longer-term financial viability of each individual clinic. Based on previous acquisitions and the company's strategic plan, you believe that the least profitable of these smaller clinics will be closed and the more profitable ones will expand. In all cases, much of the administrative side of the clinics—record-keeping, scheduling, and insurance processing—will be consolidated with the central office. All of the reasons that explain the move towards consolidation in general make equal sense on the local level. Economic and operational efficiencies make a strong case for following this strategy. You know that if this consolidation happens, the health care professionals—all of the nurses, physician assistants, and the physicians—will be offered positions at other clinics, but most of the other employees will lose their jobs.

As a result of this change in assignment, you have noticed that the nature of your relationship with the employees at the clinics has begun to change as well. Part of this, no doubt, stems from your own hesitance. Knowing that some people will lose their jobs as a result of your recommendations, you have tried to remain somewhat aloof, have been reluctant to join in conversations, and have declined invitations to lunch. The information that you are requesting and the questions you are asking are also beginning to raise suspicions among employees.

After a recent visit to one clinic, you receive an email from the office receptionist. She begins by telling you that based on your previous work relationship, she thinks that she can trust and confide in you. She then reminds you how important the clinic is for the local town. She points out that the majority of the cases they treat involve children and the elderly, and that they know most of their patients on a first-name basis. The clinic provides the type of personalized health care that is increasingly unusual in a large system. Finally, she tells you that the office is full of rumors that the clinic is about to be closed. She explains that there are few jobs in this small rural community and that she is worried about losing her job. She then tells you that she knows of another job, but with lower pay and fewer benefits than her present job. She asks you directly if the clinic is likely to be closed. She concludes by asking: “Am I about to lose my job?” “Should I pursue this other job?”

1. How would you answer?

Chapter Objectives

After reading this chapter, you will be able to:

1. Describe a process for ethically responsible decision making.
2. Apply this model to ethical decision points.
3. Explain the reasons why “good” people might engage in unethical behavior.
4. Explore the impact of managerial roles on the nature of our decision making.

Introduction

Chapter 1 introduced our approach to business ethics as a form of practical reasoning, a process for decision making in business. Putting ethics into practice requires not simply decision making, but *accountable* decision making. Chapter 1 also suggested that, even if a person does not consciously think about a decision, her or his own actions will involve making a choice and taking a stand. Like the accountant in the opening decision point, you will not be able to avoid making a decision, whether by act or omission. Whatever you do—or do not do—in answering the employee’s question, you will have made a choice that will be evaluated in ethical terms and have ethical implications.

The previous chapter provided a general context for thinking about business ethics; in the current chapter, we begin to bring this topic to a more practical level by examining ethical decision making as it might occur in everyday business situations. We will examine various elements involved in individual decision making and apply those concepts to the decisions individuals make every day in business. This chapter also examines various ways in which ethical decision making can go wrong, as well as the ways in which business leaders can model the most effective ethical decision making.

A Decision-Making Process for Ethics

1 OBJECTIVE

ethical decision-making process
Requires a persuasive and rational justification for a decision. Rational justifications are developed through a logical process of decision making that gives proper attention to such things as facts, alternative perspectives, consequences to all stakeholders, and ethical principles.

Let us begin to develop an initial sketch of an **ethical decision-making process** by considering some possible responses to the email described at the end of the opening discussion case. You might first reflect on the fact that you honestly do not know what will happen to this particular clinic. While your analysis will heavily influence the decision, you are not the decision maker and your analysis is not yet complete. Your initial thought is to reply that you don't know and perhaps explain further that it is not your decision. You also do not know this woman very well and you are uncomfortable giving anyone, much less just an acquaintance, advice about leaving a job.

But you hesitate and put off making any reply. Your immediate reaction was to feel uncomfortable being in this position, and you begin to explore that feeling. What makes you uncomfortable? Partially, it is because you are being asked to reveal information that is not your responsibility to disclose. You also are sensitive to the obvious fear and worry being expressed by this woman. But you are also uncomfortable because, in fact, you know that your analysis likely will recommend closing the clinic and that this will result in exactly the harms that the person fears. And you recognize that these harms will result from your own decisions and recommendations.

As you hesitate, you also reflect on what the employee has said. The clinic does serve an important function in a small town, and you wonder if your financial analysis has given full weight to those facts. While you have been asked to provide a financial analysis, you wonder if your role should include asking wider social questions. But how could you account for that in your analysis? Should you account for those facts in what was intended to be only a standard financial analysis?

Stepping back from this case, we should recognize that an important **first step** in making any responsible decision is to *determine the facts* of the situation. Making an honest effort to understand the situation, to distinguish facts from mere opinion, is essential. Sometimes, what appears to be a disagreement of ethics might turn out to be a disagreement about the facts. For example, one person might believe that losing the clinic is unethical because it will deprive people of health care. Another person will believe that the same act is ethically justified because, in fact, he or she knows about alternative health care arrangements that will provide improved care.

But determining the facts is not as simple as it might seem. Is it a fact that your report will recommend closure? In one sense, your answer is *no* because the report is yet to be written so right now it is not a fact. Yet, it would be a little disingenuous to say that you do not know. You know that your company is planning on closing several clinics and that senior executives have always followed your recommendations and at this point you think that you will recommend closure.

You also believe that what the employee has said about job prospects in that town is not fully correct. While there may not be many jobs with comparable salary and benefits, you do know that the labor market is not as bleak as the employee believes. But this might be easy for you to believe because of your own job skills and employability. You wonder how a woman working in a small town with few transferable skills might perceive the situation. This recognition suggests that beyond the facts, **perceptual differences** surrounding how individuals experience and understand situations can explain many ethical disagreements. A woman supporting a family on her salary will perceive the loss of a job very differently than a corporate executive with many other job prospects. Knowing the facts and carefully reviewing the circumstances can go a long way toward resolving disagreements and setting the foundation for a responsible decision.

perceptual differences
Psychologists and philosophers have long recognized that individuals cannot perceive the world independently of their own conceptual framework. Experiences are mediated by and interpreted through our own understanding and concepts. Thus, ethical disagreements can depend as much on a person's conceptual framework as on the facts of the situation. Unpacking our own and others' conceptual schema plays an important role in making ethically responsible decisions.

What facts would be useful to know before making a decision? Would you be more inclined to answer the email if you knew that this clinic will remain open? Suppose you had been explicitly told not to disclose any information to employees? Suppose you had been told to use your own judgment? Imagine that you know that your company has plans to introduce a new telemedicine system in areas where clinics are closed to allow patients to access diagnostic help and treatments online using their computers or smart phones?

An ethical judgment made in light of a diligent determination of the facts is a more reasonable ethical judgment than one made without regard for the facts. A person who acts in a way that is based on a careful consideration of the facts has acted in a more ethically responsible way than a person who acts without deliberation. Given the general importance of determining the facts, there is a role for science (and critical thinking) in any study of ethics. The sciences, and perhaps especially the social sciences, can help us determine the facts surrounding our decisions. Determining the facts will often involve making predictions about the future. For example, what will happen to health care costs for patients in rural communities after a clinic closes? Answering this question about likely future outcomes—determining the facts—will involve applying some basic principles of economics.

For another business example, consider what facts might be relevant for making a decision regarding child labor. Consider how the social sciences of anthropology and economics, for example, might help us understand the facts surrounding employing children in the workplace within a foreign country. Applying this strategy to a business operation would encourage business decision makers to seek out perhaps alternative or somewhat less-traditional methods of gathering facts to ensure that she or he has compiled all of the necessary data in processing the most ethical decision.

A **second step** in responsible ethical decision making requires the ability to recognize a decision or issue as an ethical decision or ethical issue. *Identifying the* *ethical issues involved* is the next step in making responsible decisions. It is easy to be led astray by a failure to recognize that there is an ethical component to some decisions. [Certainly, the first and second steps might arise in reverse order, depending on the circumstances. At times, you have a selection of facts that give rise to a particular ethical dilemma or issue. However, just as likely, there may also be times when you are presented with an issue from the start, say, when a colleague asks you for guidance with a challenging ethical predicament. The issue identification, therefore, becomes the first step, while fact gathering is a necessary second step.]

In this case, a number of ethical issues are immediately apparent. First, you do have a responsibility to your employer to keep confidential information private. Your feelings of empathy and compassion for the employees are also ethical issues that should be acknowledged. The harms of losing one's job, or the social harms to a small community in losing a health care clinic, are other ethical issues. Being truthful and avoiding deception are ethical values that also come into play in deciding how to reply to the email.

Perhaps nowhere in business will the challenge of identifying ethical issues be more important than in situations where there is a temptation to describe a decision simply as a "business" or "financial" decision. In many situations, what appears to be an ethical issue for one person will be perceived as simply a financial decision by others. In a move that is connected to the separation thesis discussed in Chapter 1, there is a common tendency to think that business decisions are immune from ethical criticism if they are made on economic or financial grounds. This can be especially prevalent when we are justifying our decisions to ourselves.

Consider how easy it was to dismiss accounting for the social impact of closing the clinic by claiming that you are conducting "only" a standard financial analysis. If you can categorize a decision as an accounting or economic decision, then it is easy to think that you no longer need to worry about the ethics involved. There is another misleading tendency, also sometimes associated with the separation thesis, that ethical concerns can be discounted because that are only "feelings" or "emotions." So, for example, it would not be uncommon for someone to react to the clinic case by assuming that the decision should be based on the "hard facts" of accounting and economics, rather than the "soft feelings" of empathy and compassion.

But how does one determine that a question raises an ethical issue? When does a *business* decision become an *ethical* decision? First, of course, we need to recognize that "business" or "economic" decisions and ethical decisions are not mutually exclusive. Just because a decision is made on economic grounds does not mean that it does not involve ethical considerations as well. One is not excused from ethical responsibility just because a decision is made to further profit or economic efficiency. Beyond financial considerations, we also need to ask how our decisions will impact the well-being of the people involved—what are the implications for stakeholders? Ultimately, how our decisions impact the well-being of others is what brings a decision into the realm of ethics. Being sensitive to ethical issues is a vital characteristic that needs to be cultivated in ethically responsible people.

Consider how ethics and economics intersect in the decision, announced in 2016 by Adidas AG, to resume manufacturing in Germany. Adidas is a German company that makes shoes and sportswear, and for decades it had conducted its manufacturing activities primarily in developing countries. The decision by Adidas to "return" to Germany might have been cause for celebration among Germans looking for jobs, but there was a catch: The shoes Adidas would be making in Germany would be made by robots. On one hand, a decision regarding what technology to use in manufacturing seems like a purely technical question. And the question of *where* to manufacture seems like a simple question of operational efficiency. But both questions have clear ethical implications. Having shoes made by robots means fewer jobs for people. Having them made in Germany (rather than, say, in Indonesia) means at least some jobs for Germans. But it means no (new) jobs for Indonesians, who, on average, are much poorer—and hence need jobs much more desperately—than Germans. Whether this decision is better, or worse, than a different decision is not obvious, but what *should* be obvious is that it is a decision with a significant ethical dimension.

A fundamental commitment of ethics lies with the *impartial* promotion of human well-being. An ethically responsible person is concerned not only with her own well-being, or the well-being of only her friends or family, but with the well-being of everyone involved. The reaction of empathy and compassion is not some random emotion or feeling, but a recognition that, just like oneself, other individuals can be hurt and harmed. To the degree that a decision affects the well-being—the happiness, health, dignity, integrity, freedom, respect—of all the people involved, it is an ethically responsible decision. To the degree that it ignores or disregards the well-being of others, it is an ethically irresponsible decision. In the end, it is almost impossible to conceive of any major business decision that does not have some impact on the well-being of others. Accordingly, one could argue that practically all of our business decisions have ethical implications.

In many business contexts, one can easily become so involved in the technical aspects of decisions that one loses sight of the ethical aspects. Perhaps the Adidas board did not contemplate the differential impact its decision would have on various employees and potential employees. Consider again the situation where the social costs of closing a clinic are ignored when conducting a financial analysis. Some writers have called this inability to recognize ethical issues **normative myopia,** or shortsightedness about values.[2] Normative myopia is a problem not only in business, of course, but in a business context people may be especially likely to focus on the technical aspects of the task at hand, and thus fail to recognize the ethical aspect. (See the Reality Check "Is There an Ethics of Writing Papers?")

normative myopia
The tendency to ignore, or the lack of the ability to recognize, ethical issues in decision making.

Business scholars Chugh and Bazerman similarly warn of **inattentional blindness,** which they suggest results from focusing on too narrow a range of questions.[3] If we happen to focus on—or if we are told specifically to pay attention to—only one particular element of a decision or event, we are likely to miss many of the surrounding details, no matter how obvious. These focusing failures then result in a moment when we ask ourselves, "How could I have missed that?" You may recall having a conversation with someone while driving and perhaps missing a highway turn-off because your "mind was elsewhere."

inattentional blindness
If we happen to focus on or are told specifically to pay attention to a particular element of a decision or event, we are likely to miss all of the surrounding details, no matter how obvious.

Reality Check *Is There an Ethics of Writing Papers?*

Perhaps the most common ethical issue that students and teachers confront involves plagiarism. In fact, a 2010 survey of 43,000 high school students showed that one student in three admitted to using the Internet to plagiarize an assignment.* From the academic perspective, there is no more serious offense than plagiarizing the work of others. Yet, many students seem honestly surprised to learn that what they believed was research is interpreted as unethical behavior by their teachers.†

Many students rely on Internet sources while writing their school papers. It is all too easy to cut and paste sections of an online source into one's own writing assignment, and to neglect to put it inside quotation marks and cite a source. On one particular website, users can post a question that they are struggling with and identify the amount they are willing to pay for an answer. "Tutors" then write a custom lesson that answers the questions posted in order to receive payment. The website claims it does not help the student cheat; instead, it is simply offering an online tutoring service. It contends that all users, both students and tutors, must agree to the website's academic honesty policy in order to use the website's services.

No doubt, some of this is intentional cheating, such as when a student downloads or purchases an entire paper or answer from a "tutor" or other Internet source. But, in many cases, students seem honestly confused that their teacher treats an unattributed cut-and-pasted passage as cheating. Most teachers can recall situations in which they have had to explain to a student why this practice is unethical.

Such cases are not rare. People often make bad ethical decisions because they fail to understand that there is an ethical issue involved. Typically, they have not thought through the implications of their decision and have not stepped back from their situation to reflect on their choice and to consider their decision from other points of view. Often, they are simply too involved in the immediate situation to think about such things. This is a good example of normative myopia and inattentional blindness.

*"Installment 2: The Ethics of American Youth: 2010," Josephson Institute: Center for Youth Studies, February 10, 2011, http://charactercounts.org/programs/reportcard/2010/installment02_report-card_honesty-integrity.html (accessed July 17, 2012).

†For just one website of many that compiles definitions of violations of academic integrity, as well as strategies to maintain academic integrity, see http://academicintegrity.depaul.edu.

The problem is that when we focus on the wrong thing, or fail to focus, we may fail to see key information that will lead us to success or prevent unethical behavior; we may fail to use the information because we do not know it is relevant; or we may be aware, but we might fail to contribute it to the group. Any of these breakdowns can have disastrous or dangerous consequences. (For more about failures to see relevant information, see the Reality Check "Fooling Ourselves.")

change blindness
A decision-making omission that occurs when decision makers fail to notice gradual changes over time.

Chugh and Bazerman identify a third means by which ethical issues might go unnoticed: **change blindness.** This omission occurs when decision makers fail to notice gradual changes over time. They offer the example of the Arthur Andersen auditors who did not notice how low Enron had fallen in terms of its unethical decisions. One of the means by which to protect against these decision risks is to ensure that decision makers seek input from others in their decision processes. The researchers report that group input—*any* other input—is almost always a positive factor because individuals collectively can possess and utilize more information than any single person.

The **third step** involved in ethical decision making involves one of its more important elements. Responsible decision making expects us to *identify and to consider all of the people affected by a decision, the people often called stakeholders.*

Reality Check *Fooling Ourselves*

"People view themselves as more ethical, fair, and objective than others, yet often act against their moral compass."

*Sezer, Gino, and Bazerman, "Ethical Blind Spots"**

The key factors that these authors say contribute to ethical blind spots include:

- Implicit biases. ("Individuals typically fail to recognize the harm that implicit favoritism of in-group members causes to members of social out-groups.")
- Temporal distance. (We tend to believe that we will follow our moral compasses "when the time comes," but when the time actually comes, we become more likely to go with our immediate wants.)
- Failure to notice others' unethical behavior. (We are less likely to condemn other people's ethical behavior when we benefit from it, or when we have encouraged it.)

*O. Sezer, F. Gino, and M. H. Bazerman, "Ethical Blind Spots: Explaining Unintentional Unethical Behavior," *Current Opinion in Psychology* 6 (2015), pp. 77–81.

"Stakeholders," in this general sense, include all of the groups and/or individuals affected by a decision, policy, or operation of a firm or individual (see Figure 2.1). Examining issues from a variety of perspectives other than one's own helps make one's decisions more reasonable, accountable, and responsible. And, to the contrary, thinking and reasoning from a narrow and personal point of view virtually guarantees that we will not fully understand the situation. Making decisions from a narrow and personal point of view likewise ensures that we are liable to make a decision that does not give due consideration to other persons and perspectives.

One helpful exercise for considering the effects of a decision on others is to shift one's role. Rather than being in the position of the person who recommends a clinic closing, what would you think of this case if you were the person who

FIGURE 2.1
Stakeholder Map