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Business Ethics Now

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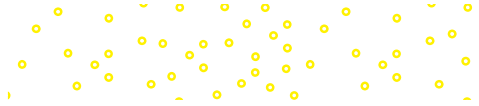
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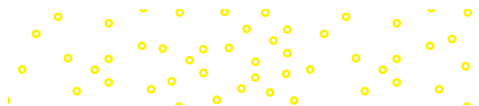
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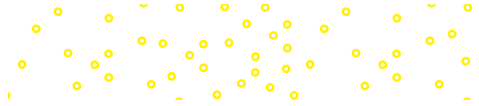
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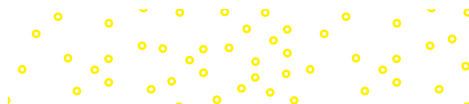


Business Ethics Now

Andrew W. Ghillyer, Ph.D.

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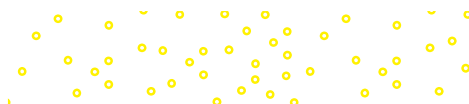
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Dedication

To Princess Megan



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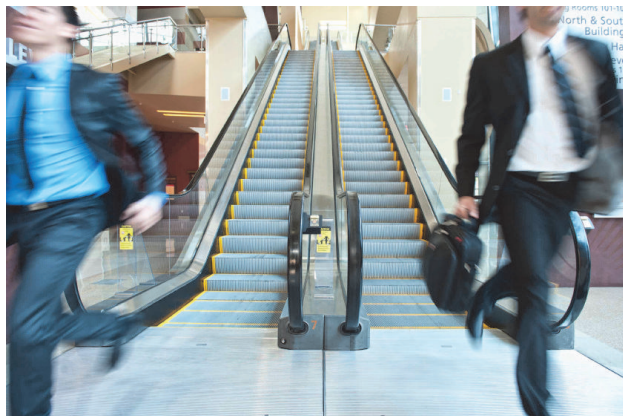
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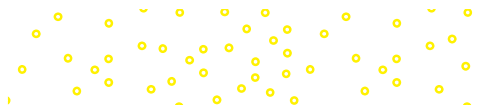
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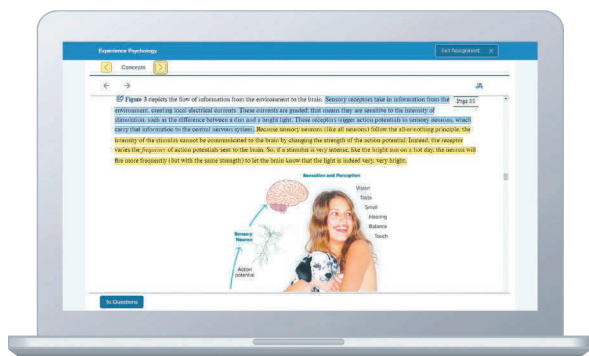
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Specially prepared Instructor's Manual, Test Bank, and PowerPoint slide presentations provide an easy transition for instructors teaching with the book the first time.

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Business Ethics Now

PART 1

DEFINING BUSINESS ETHICS

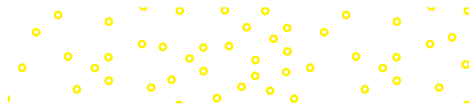


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- 1 Understanding Ethics
- 2 Defining Business Ethics

In **Chapter 1**, we begin by exploring how people live their lives according to a standard of “right” or “wrong” behavior. Where do people look for guidance in deciding what is right or wrong or good or bad? Once they have developed a personal set of moral standards or ethical principles, how do people then interact with other members of their community or society as a whole who may or may not share the same ethical principles?

In **Chapter 2**, with a basic understanding of ethics, we can then examine the concept of business ethics, where employees face the dilemma of balancing their own moral standards with those of the company they work for and the supervisor or manager to whom they report on a daily basis. We examine the question of whether the business world should be viewed as an artificial environment where the rules by which you choose to live your own life don’t necessarily apply.



CHAPTER 1

UNDERSTANDING ETHICS



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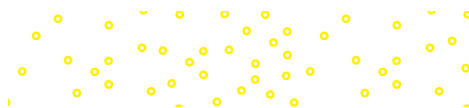
Ethics is about how we meet the challenge of doing the right thing when that will cost more than we want to pay.

The Josephson Institute of Ethics

LEARNING OUTCOMES

After studying this chapter, you should be able to:

- 1-1** Define *ethics*.
 - 1-2** Explain the role of values in ethical decision making.
 - 1-3** Understand opposing ethical theories and their limitations.
 - 1-4** Discuss ethical relativism.
 - 1-5** Explain an ethical dilemma, and apply a process to resolve it.
-



FRONTLINE FOCUS

Doing the Right Thing

Megan is a rental agent for the Oxford Lake apartment complex. The work is fairly boring, but she's going to school in the evening, so the quiet periods give her time to catch up on her studies, plus the discounted rent is a great help to her budget. Business has been slow since two other apartment complexes opened, and Oxford Lake's vacancies are starting to run a little high.

The company recently appointed a new regional director to "inject some energy and creativity" into its local campaigns and generate new rental leases. Her name is Kate Jones, and based on first impressions, Megan thinks Kate would rent her grandmother an apartment as long as she could raise the rent first.

Kate's first event is an open house, complete with free hot dogs and colas and a clown making balloon animals for the kids. Ads run in the paper and on the radio attract a good crowd.

The first applicants are Michael and Tania Wilson, an African-American couple with one young son, Tyler. Megan takes their application. They're a nice couple with a stable work history, more than enough income to cover the rent, and good references from their previous landlord. Megan advises them that they will do a background check as a standard procedure and that things "look very good" for their application.

After they leave, Kate stops by the rental office and asks, "How did that couple look? Any issues with their application?"

"None at all," answers Megan. "I think they'll be a perfect addition to our community."

"Don't rush their application through too quickly," replies Kate. "We have time to find some more applicants, and, in my experience, those people usually end up breaking their lease or skipping town with unpaid rent."

QUESTIONS

1. What would be "the right thing" to do here? How would the **Golden Rule** relate to Megan's decision?
2. How would you resolve this ethical dilemma? Review the three-step process in "**Resolving Ethical Dilemmas**" for more details.
3. What should Megan do now?

>> What Is Ethics?

The field of **ethics** is the study of how we try to live our lives according to a standard of "right" or "wrong" behavior—in both how we think and behave toward others and how we would like them to think and behave toward us. For some, it is a conscious choice to follow a set of moral standards or ethical principles that provide guidance on how they should conduct themselves in their daily lives. For others, where the choice is not so clear, they look to the behavior of others to determine what is an acceptable standard of right and wrong or good and bad behavior. How they arrive at the definition of what's right or wrong is a result of many factors, including how they were raised, their religion, and the traditions and beliefs of their **society**.

Ethics The manner by which we try to live our lives according to a standard of "right" or "wrong" behavior—in both how we think and behave toward others and how we would like them to think and behave toward us.

Society A structured community of people bound together by similar traditions and customs.

>> Understanding Right and Wrong

Moral standards are principles based on religious, **cultural**, or philosophical beliefs by which judgments are made about good or bad behavior. These beliefs can come from many different sources:

- Friends.
- Family.
- Ethnic background.

- Religion.
- School.
- The media—television, radio, newspapers, magazines, the Internet.
- Personal role models and mentors.

Your personal set of morals—your *morality*—represents a collection of all these influences as they are built up over your lifetime. A strict family upbringing or religious education would obviously have a direct impact on your personal moral standards. These standards would then provide a moral compass (a sense of personal direction) to guide you in the choices you make in your life.

Culture A particular set of attitudes, beliefs, and practices that characterize a group of individuals.

HOW SHOULD I LIVE?

You do not acquire your personal moral standards in the same way that you learn the alphabet. Standards of ethical behavior are absorbed by osmosis as you observe the examples (both positive and negative) set by everyone around you—parents, family members, friends, peers, and neighbors. Your adoption of those standards is ultimately unique to you as an individual. For example, you may be influenced by the teachings of your family’s religious beliefs and grow to believe that behaving ethically toward others represents a demonstration of religious devotion. However, that devotion may just as easily be motivated by either fear of a divine punishment in the afterlife or anticipation of a reward for living a virtuous life.

Alternatively, you may choose to reject religious morality and instead base your ethical behavior on your experience of human existence rather than any abstract concepts of right and wrong as determined by a religious doctrine.

When individuals share similar standards in a community, we can use the terms *values* and *value system*. The terms *morals* and *values* are often used to mean the same thing—a set of personal principles by which you aim to live your life. When you try to formalize those principles into a code of behavior, then you are seen to be adopting a **value system**.

Value System A set of personal principles formalized into a code of behavior.

THE VALUE OF A VALUE

Just as the word *value* is used to denote the worth of an item, a person’s values can be said to have a specific “worth” for them. That worth can be expressed in two ways:

1. An **intrinsic value**—by which a value is a good thing in itself and is pursued for its own sake, whether anything good comes from that pursuit or not. For example, happiness, health, and self-respect can all be said to have intrinsic value.
2. An **instrumental value**—by which the pursuit of one value is a good way to reach another value. For example, money is valued for what it can buy rather than for itself.

Intrinsic Value The quality by which a value is a good thing in itself and is pursued for its own sake, whether anything comes from that pursuit or not.

Instrumental Value The quality by which the pursuit of one value is a good way to reach another value. For example, money is valued for what it can buy rather than for itself.

VALUE CONFLICTS

The impact of a person's or a group's value system can be seen in the extent to which their daily lives are influenced by those values. However, the greatest test of any personal value system comes when you are presented with a situation that places those values in direct conflict with an action. For example:

1. *Lying is wrong*—but what if you were lying to protect the life of a loved one?
2. *Stealing is wrong*—but what if you were stealing food for a starving child?
3. *Killing is wrong*—but what if you had to kill someone in self-defense to protect your own life?

How do you resolve such conflicts? Are there exceptions to these rules? Can you justify those actions based on special circumstances? Should you then start clarifying the exceptions to your value system? If so, can you really plan for every possible exception?

It is this gray area that makes the study of ethics so complex. We would like to believe that there are clearly defined rules of right and wrong and that you can live your life in direct observance of those rules. However, it is more likely that situations will arise that will require exceptions to those rules. It is how you choose to respond to those situations and the specific choices you make that really define your personal value system.



Exactostock/Digital Vision/SuperStock

DOING THE RIGHT THING

If you asked your friends and family what ethics means to them, you would probably arrive at a list of four basic categories:

1. Simple truth—right and wrong or good and bad.
2. A question of someone's personal character—his or her integrity.
3. Rules of appropriate individual behavior.
4. Rules of appropriate behavior for a community or society.

The first category—a *simple truth*—also may be expressed as simply *doing the right thing*. It is something that most people can understand and support. It is this basic simplicity that can lead you to take ethical behavior for granted—you assume that everyone is committed to doing the right thing, and it's not until you are exposed to unethical behavior that you are reminded that, unfortunately, not all people share your interpretation of what “the right thing” is, and even if they did, they may not share your commitment to doing it.

The second category—*personal integrity*, demonstrated by someone's behavior—looks at ethics from an external rather than an internal viewpoint. All our classic comic-book heroes—Superman, Spider-Man, Batman, and Wonder Woman, to name just a few—represent the ideal of personal integrity where a person lives a life that is true to his or her moral standards, often at the cost of considerable personal sacrifice.

Rules of appropriate individual behavior represent the idea that the moral standards we develop for ourselves impact our lives on a daily basis in our behavior and the other types of decisions we make.

Rules of appropriate behavior for a community or society remind us that we must eventually bring our personal value system into a world that is shared with people who will probably have both similar and very different value systems. Establishing an ethical ideal for a community or society allows that group of people to live with the confidence that comes from knowing they share a common standard.

Each category represents a different feature of ethics. On one level, the study of ethics seeks to understand how people make the choices they make—how they develop their own set of moral standards, how they live their lives on the basis of those standards, and how they judge the behavior of others in relation to those standards. On a second level, we then try to use that understanding to develop a set of ideals or principles by which a group of ethical individuals can combine as a community with a common understanding of how they “ought” to behave.



Superman has become a fictional representation of personal integrity. Can you find examples of individuals with personal integrity in your own life?

Swim Ink 2, LLC/Corbis Historical/Getty Images

PROGRESS ✓ QUESTIONS

1. What is the definition of *ethics*?
2. What is a moral compass, and how would you apply it?
3. Explain the difference between intrinsic and instrumental values.
4. List the four basic categories of ethics.

THE GOLDEN RULE

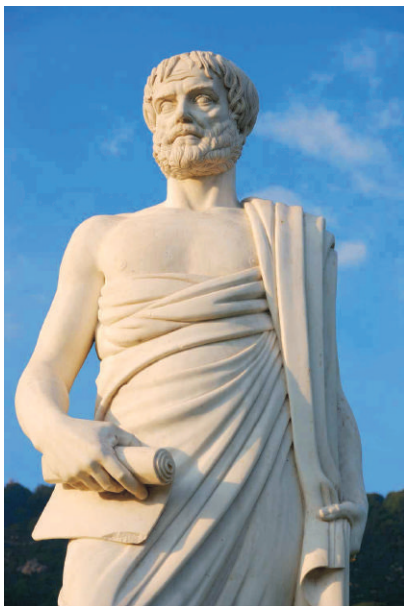
For some, the goal of living an ethical life is expressed by the **Golden Rule**: *Do unto others as you would have them do unto you, or treat others as you would like to be treated*. This simple and very clear rule is shared by many different religions in the world:

- Buddhism: “Hurt not others in ways that you yourself would find hurtful.”—Udana-Varga 5:18
- Christianity: “Therefore all things whatsoever ye would that men should do to you, do ye even so to them.”—Matthew 7:12
- Hinduism: “This is the sum of duty: do naught unto others which would cause you pain if done to you.”—Mahabharata 5:1517

Of course, the danger with the Golden Rule is that not everyone thinks like you, acts like you, or believes in the same principles that you do, so to live your life on the assumption that your pursuit of an ethical ideal will match others’ ethical ideals could get you into trouble. For example, if you were the type of person who values honesty in your personal value system, and you found a wallet on the sidewalk, you would try to return it to its rightful owner. However, if you lost your wallet, could you automatically expect that the person who found it would make the same effort to return it to you?

Golden Rule Do unto others as you would have them do unto you.

>> Ethical Theories



Dimitris Tavlikos/Alamy Stock Photo

The subject of ethics has been a matter of philosophical debate for over 2,500 years—as far back as the Greek philosopher Socrates. Over time and with considerable debate, different schools of thought have developed as to how we should go about living an ethical life.

Ethical theories can be divided into three categories: virtue ethics, ethics for the greater good, and universal ethics.

VIRTUE ETHICS

The Greek philosopher Aristotle’s belief in individual character and integrity established a concept of living your life according to a commitment to the achievement of a clear ideal—*what sort of person would I like to become, and how do I go about becoming that person?*

The problem with **virtue ethics** is that societies can place different emphasis on different virtues. For example, Greek society at the time of Aristotle valued wisdom, courage, and justice. By contrast, Christian societies value faith, hope, and charity. So if the virtues you hope to achieve aren’t a direct reflection of the values of the society in which you live, there is a real danger of value conflict.

Virtue Ethics A concept of living your life according to a commitment to the achievement of a clear ideal— *what sort of person would I like to become, and how do I go about becoming that person?*

Life Skills

>> What Do You Stand for, or What Will You Stand Against?



Your personal value system will guide you throughout your life, both in personal and professional matters. How often you will decide to stand by those values or deviate from them will be a matter of personal choice, but each one of those choices will contribute to the ongoing development of your values. Your understanding of moral complexities and ethical dilemmas grows as your life experience and education grow, as noted later in the section on Ethical Reasoning. For that reason, you will measure every choice you make against the value system you developed as a child from your parents, friends, society, and often your religious upbringing. The cumulative effect of all those choices is a value system that is unique to you. Of course, you will share many of the same values as your family and friends, but some of your choices will differ from theirs because your values differ.

The great benefit of having such a guide to turn to when faced with a difficult decision is that you can both step away from the emotion and pressure of a situation and, at the same time, turn to a system that truly represents who you are as a person—someone with integrity who can be counted on to make a reasoned and thoughtful choice.

ETHICS FOR THE GREATER GOOD

As the name implies, *ethics for the greater good* is more focused on the outcome of your actions rather than the apparent virtue of the actions themselves—that is, a focus on the greatest good for the greatest number of people. Originally proposed by a Scottish philosopher named David Hume, this approach to ethics is also referred to as **utilitarianism**.

The problem with this approach to ethics is the idea that the ends justify the means. If all you focus on is doing the greatest good for the greatest number of people, no one is accountable for the actions that are taken to achieve that outcome. The 20th century witnessed one of the most extreme examples of this when Adolf Hitler and his Nazi party launched a national genocide against Jews and “defective” people on the utilitarian grounds of restoring the Aryan race.

Utilitarianism Ethical choices that offer the greatest good for the greatest number of people.

UNIVERSAL ETHICS

Originally attributed to a German philosopher named Immanuel Kant, **universal ethics** argues that there are certain and universal principles that should apply to all ethical judgments. Actions are taken out of *duty* and *obligation* to a purely moral ideal rather than based on the needs of the situation, since the universal principles are seen to apply to everyone, everywhere, all the time.

The problem with this approach is the reverse of the weakness in ethics for the greater good. If all you focus on is abiding by a universal principle, no one is accountable for the consequences of the actions taken to abide by those principles. Consider, for example, the current debate over the use of stem cells in researching a cure for Parkinson’s disease. If you recognize the value of human life above all else as a universal ethical principle, how do you justify the use of a human embryo in the harvesting of stem cells? Does the potential for curing many major illnesses—Parkinson’s, cancer, heart disease, and kidney disease—make stem cell research ethically justifiable? If not, how do you explain that to the families who lose loved ones waiting unsuccessfully for organ transplants?

Universal Ethics Actions that are taken out of duty and obligation to a purely moral ideal, rather than based on the needs of the situation, since the universal principles are seen to apply to everyone, everywhere, all the time.

PROGRESS ✓ QUESTIONS

5. What is the Golden Rule?
6. List the three basic ethical theories.
7. Identify the limitations of each theory.
8. Provide an example of each theory in practice.

>> Ethical Relativism

When the limitations of each of these theories are reviewed, it becomes clear that there is no truly comprehensive theory of ethics, only a choice that is made based on your personal value system. In this context, it is easier to understand why, when faced with the requirement to select a model of how we ought to live our lives, many people choose the idea of **ethical relativism**, whereby the traditions of their society, their personal opinions, and the circumstances of the present moment define their ethical principles.

The idea of relativism implies some degree of flexibility as opposed to strict black-and-white rules. It also offers the comfort of being a part of the ethical majority in your community or society instead of standing by your individual beliefs as an outsider from the group. In our current society, when we talk about peer pressure among groups, we are acknowledging that the expectations of this majority can sometimes have negative consequences.

Ethical Relativism Gray area in which your ethical principles are defined by the traditions of your society, your personal opinions, and the circumstances of the present moment.



KEY POINT

Why is the issue of accountability relevant in considering alternate ethical theories?

>> Ethical Dilemmas

Up to now we have been concerned with the notion of ethical theory—how we conduct ourselves as individuals and as a community in order to live a good and moral life. However, this ethical theory represents only half of the school of philosophy we recognize as ethics. At some point, these theories have to be put into practice, and we then move into the area of **applied ethics**.

The basic assumption of ethical theory is that you as an individual or community are in control of all the factors that influence the choices that you make. In reality, your ethical principles are most likely to be tested when you face a situation in which there is no obvious right or wrong decision but rather a right or right answer. Such situations are referred to as **ethical dilemmas**.

As we saw earlier in our review of value systems and value conflicts, any idealized set of principles or standards inevitably faces some form of challenge. For ethical theories, that challenge takes the form of a dilemma in which the decision you must make requires you to make a right choice knowing full well that you are:

- Leaving an equally right choice undone.
- Likely to suffer something bad as a result of that choice.
- Contradicting a personal ethical principle in making that choice.
- Abandoning an ethical value of your community or society in making that choice.

Applied Ethics The study of how ethical theories are put into practice.

Ethical Dilemmas A situation in which there is no obvious right or wrong decision, but rather a right or right answer.

PEER PRESSURE



Wavebreakmedia/Shutterstock

In the days before the dominance of technology in the lives of teenagers and young adults, concerns over *peer pressure* (stress exerted by friends and classmates) focused on bullying, criminal behavior, drug use, and sexual activity. The arrival of smartphones and the ability to send text messages to a wide audience and post short videos on the Internet have brought a new element to concerns over peer pressure at school. "A 2008 survey by the National Campaign to Prevent Teen and Unplanned Pregnancy found that 20 percent of teens ages 13 to 19 said they have electronically sent or posted online nude or seminude pictures or videos of themselves. Nearly 50 percent of the teen girls surveyed said "pressure from guys" was the reason they shared sexually explicit photos or messages, and boys cited "pressure from friends."

Incidents of "sexting" have increased so quickly that local communities and law enforcement agencies have been caught unprepared. While many consider the incidents to be examples of negligent behavior on the part of the teens involved, the viewing and distribution of such materials

could result in charges of felony child pornography and a listing on a sex offender registry for decades to come. "In one case, 18-year-old Philip Alpert was convicted of child pornography after distributing a revealing photo of his 16-year-old girlfriend after they got into an argument. He will be labeled a "sex offender" until he is 43 years old."

Unfortunately, the dramatic increase in the number of incidents of sexting has brought about tragic consequences. Cincinnati teen Jessie Logan killed herself after nude pictures she had sent to her boyfriend were sent to hundreds of students. Even though only five teens were involved in sending the pictures, their unlimited access to technology allowed them to reach several hundred students in four school districts before the incident was stopped. At the time of writing this case, 20 states now have legislation in place to deter teens from sexting without charging them as adult sex offenders.

QUESTIONS

1. In what ways does giving in to peer pressure constitute ethical relativism?
2. How could you use your personal value system to fight back against peer pressure?
3. How would you communicate the risks of sexting to students who are struggling to deal with peer pressure?
4. Is a change in the law the best option for addressing this problem? Why or why not?

Sources: Satta Sarmah, "'Sexting' on the Rise among Teens," <http://rye.patch.com>, May 21, 2010; "Sexting Bill Introduced at State-house," www.onntv.com, May 13, 2010; "Sex and Tech: Results from a Survey of Teens and Young Adults," www.thenationalcampaign.org, October 20, 2010; and <http://cyberbullying.org/state-sex-ting-laws.pdf>.

>> RESOLVING ETHICAL DILEMMAS

By its very definition, an ethical dilemma cannot really be resolved in the sense that a resolution of the problem implies a satisfactory answer to the problem. Since, in reality, the "answer" to an ethical dilemma is often the lesser of two evils, it is questionable to assume that there will always be an acceptable answer—it's more a question of whether or not you can arrive at an outcome you can live with.

Joseph L. Badaracco Jr.'s book *Defining Moments* captures this notion of living with an outcome in a discussion of "sleep-test ethics":¹

The sleep test . . . is supposed to tell people whether or not they have made a morally sound decision. In its literal version, a person who has made the right choice can sleep soundly afterward; someone who has made the wrong choice cannot. . . . Defined less literally and more broadly, sleep-test ethics rests on a single, fundamental belief: that we should rely on our personal insights, feelings, and instincts when we face a difficult problem. Defined this way, sleep-test ethics is the ethics of intuition. It advises us to follow our hearts, particularly when our minds are confused. It says that, if something continues to gnaw at us, it probably should.



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When we review the ethical theories covered in this chapter, we can identify two distinct approaches to handling ethical dilemmas. One is to focus on the practical consequences of what we choose to do, and the other focuses on the actions themselves and the degree to which they were the right actions to take. The first school of thought argues that the ends justify the means and that if there is no harm, there is no foul. The second claims that some actions are simply wrong in and of themselves.

So what should you do? Consider this three-step process for solving an ethical problem:²

- Step 1. *Analyze the consequences.* Who will be helped by what you do? Who will be harmed? What kind of benefits and harm are we talking about? (Some are more valuable or more harmful than others: Good health, someone's trust, and a clean environment are very valuable benefits, more so than a faster remote control device.) How does all of this look over the long run as well as the short run?
- Step 2. *Analyze the actions.* Consider all the options from a different perspective, without thinking about the consequences. How do the actions measure up against moral principles such as honesty, fairness, equality, respecting the dignity of others, and people's rights? (Consider the common good.) Are any of the actions at odds with those standards? If there's a conflict between principles or between the rights of different people involved, is there a way to see one principle as more important than the others? Which option offers actions that are least problematic?
- Step 3. *Make a decision.* Take both parts of your analysis into account, and make a decision. This strategy at least gives you some basic steps you can follow.

PROGRESS ✓ QUESTIONS

9. Define *ethical relativism*.
10. Define *applied ethics*.
11. What is an ethical dilemma?
12. Explain the three-step process for resolving an ethical dilemma.

If a three-step model seems too simple, Arthur Dobrin identified eight questions you should consider when resolving an ethical dilemma:³

1. *What are the facts?* Know the facts as best you can. If your facts are wrong, you're liable to make a bad choice.
2. *What can you guess about the facts you don't know?* Since it is impossible to know all the facts, make reasonable assumptions about the missing pieces of information.
3. *What do the facts mean?* Facts by themselves have no meaning. You need to interpret the information in light of the values that are important to you.
4. *What does the problem look like through the eyes of the people involved?* The ability to walk in another's shoes is essential. Understanding the problem through a variety of perspectives increases the possibility that you will choose wisely.
5. *What will happen if you choose one thing rather than another?* All actions have consequences. Make a reasonable guess as to what will happen if you follow a particular course of action. Decide whether you think more good or harm will come of your action.
6. *What do your feelings tell you?* Feelings are facts too. Your feelings about ethical issues may give you a clue as to parts of your decision that your rational mind may overlook.
7. *What will you think of yourself if you decide one thing or another?* Some call this your conscience. It is a form of self-appraisal. It helps you decide whether you are the kind of person you would like to be. It helps you live with yourself.
8. *Can you explain and justify your decision to others?* Your behavior shouldn't be based on a whim. Neither should it be self-centered. Ethics involves you in the life of the world around you. For this reason you must be able to justify your moral decisions in ways that seem reasonable to reasonable people. Ethical reasons can't be private reasons.



KEY POINT

Apply Dobrin's eight questions to an ethical dilemma you have faced in the past. Would applying this process have changed your decision? Why or why not?

The application of these steps is based on some key assumptions: First, that there is sufficient time for the degree of contemplation that such questions require; second, that there is enough information available for you to answer the questions; and third, that the dilemma presents alternative resolutions for you to select from. Without alternatives, your analysis becomes a question of finding a palatable resolution that you can live with—much like Badaracco's sleep test—rather than the most appropriate solution.

ETHICAL REASONING

When we are attempting to resolve an ethical dilemma, we follow a process of **ethical reasoning**. We look at the information available to us and draw conclusions based on that information in relation to our own ethical standards. Lawrence Kohlberg developed a framework (see **Figure 1.1**) that presents the argument that we develop a reasoning process over time, moving through six distinct stages (classified into three levels of moral development) as we are exposed to major influences in our lives.⁴

Ethical Reasoning Looking at the information available to us in resolving an ethical dilemma, and drawing conclusions based on that information in relation to our own ethical standards.

FIG. 1.1 Lawrence Kohlberg's Stages of Ethical Reasoning

Level	Stage	Social Orientation
Preconventional	1	Obedience and punishment
	2	Individualism, instrumentalism, and exchange
Conventional	3	"Good boy/nice girl"
	4	Law and order
Postconventional	5	Social contract
	6	Principled conscience

Level 1: Preconventional. At this lowest level of moral development, a person's response to a perception of right and wrong is initially directly linked to the expectation of punishment or reward.

- *Stage 1: Obedience and punishment orientation.* A person is focused on avoidance of punishment and deference to power and authority—that is, something is right or wrong because a recognized authority figure says it is.
- *Stage 2: Individualism, instrumentalism, and exchange.* As a more organized and advanced form of Stage 1, a person is focused on satisfying his or her own needs—that is, something is right or wrong because it helps the person get what he or she wants or needs.

Level 2: Conventional. At this level, a person continues to become aware of broader influences outside of the family.

- *Stage 3: "Good boy/nice girl" orientation.* At this stage, a person is focused on meeting the expectations of family members—that is, something is right or wrong because it pleases those family members. Stereotypical behavior is recognized, and conformity to that behavior develops.
- *Stage 4: Law-and-order orientation.* At this stage, a person is increasingly aware of his or her membership in a society and the existence of codes of behavior—that is, something is right or wrong because codes of legal, religious, or social behavior dictate it.

Level 3: Postconventional. At this highest level of ethical reasoning, a person makes a clear effort to define principles and moral values that reflect an individual value system rather than simply reflecting the group position.

- *Stage 5: Social contract legalistic orientation.* At this stage, a person is focused on individual rights and the development of standards based on critical examination—that is, something is right or wrong because it has withstood scrutiny by the society in which the principle is accepted.
- *Stage 6: Universal ethical principle orientation.* At this stage, a person is focused on self-chosen ethical principles that are found to be comprehensive and consistent—that is, something is right or wrong because it reflects that person's individual value system and the conscious choices he or she makes in life. While Kohlberg always believed in the existence of Stage 6, he was never able to find enough research subjects to prove the long-term stability of this stage.

Kohlberg's framework offers us a clearer view into the process of ethical reasoning—that is, that someone can arrive at a decision, in this case the resolution of an ethical dilemma—on the basis of a moral rationale that is built on the cumulative experience of his or her life.

Kohlberg also believed that a person could not move or jump beyond the next stage of his or her six stages. It would be impossible, he argued, for a person to comprehend the moral issues and dilemmas at a level so far beyond his or her life experience and education.

THE OVERCROWDED LIFEBOAT



Hulton-Deutsch Collection/Corbis Historical/Getty Images

In 1842, a sailing ship captain faced a complex ethical dilemma. When his ship struck an iceberg, more than 30 survivors were pulled from the water. Unfortunately they were all crowded into one lifeboat designed to hold only

seven passengers. With a storm approaching, the captain realized that he needed to lighten the lifeboat if any of the passengers and crew were going to survive. In looking at the right thing to do, the captain followed this reasoning: If some passengers were forced overboard to drown, the act couldn't be considered unjust because they would most likely have drowned anyway. If he let everybody stay in the overcrowded boat and they all died, he would be responsible for the deaths of those who could have been saved. Not surprisingly, several of the passengers and crew argued against the captain's reasoning on the following basis: If no one was forced overboard and everybody died as a result, the responsibility wouldn't fall on any one person. Forcing people overboard to their deaths to save some would make those deaths his responsibility alone. The captain ignored the appeals and moved forward with his reasoning. He decided that the stronger people should remain in the lifeboat so that they could row to safety. As such, the weaker members would be forced overboard for the greater good. To him, this represented a more reasoned choice than drawing lots to see who should stay and who should go. In the end, after several days of hard rowing, the remaining survivors were rescued and the captain was tried for his actions.

QUESTIONS

1. Did the captain make the right decision? Why or why not?
2. What other choices could the captain have made?
3. If you had been on the jury, how would you have decided? Why?
4. Which ethical theory or theories could be applied here?

Source: Victor Grassian, *Moral Reasoning: Ethical Theory and Some Contemporary Moral Problems* (Upper Saddle River, NJ: Prentice-Hall, 1992).

Real-World Applications

LIVING WITH A TOUGH DECISION



Michelle takes her managerial role very seriously. Sometimes managers are called on to make tough decisions—firing nonperformers and letting people go when cost cuts have to be made. She has always found a way to come to terms with the tough decisions: “As long as I can sleep at night, then I know I have made the best decision I can under the circumstances.” Lately, however, the material in her business ethics class has made her reconsider some of her previous decisions. “Am I really making the best decision or just the decision I can live with?” How do you think most managers would answer that question?

PROGRESS ✓ QUESTIONS

13. What are the eight questions you should consider in resolving an ethical dilemma?
14. What assumptions are we making in the resolution of a dilemma? What should you do if you can’t answer these eight questions for the dilemma you are looking to resolve?
15. What are Kohlberg’s three levels of moral development?
16. What are the six stages of development in those three levels?

>> Conclusion

Now that we have reviewed the processes by which we arrive at our personal ethical principles, let’s consider what happens when we take the study of ethics into the business world. What happens when the decision that is expected of you by your supervisor or manager goes against your personal value system? Consider these situations:

- As a salesperson, you work on a monthly quota. Your sales training outlines several techniques to “up sell” each customer—that is, to add additional features, benefits, or warranties to your product that the average customer doesn’t really need. Your sales manager draws a very clear picture for you: If you don’t make your quota, you don’t have a job. So if your personal value system requires that you sell customers only what they really need, are you willing to make more smaller sales to hit your quota, or do you do what the top performers do and “up sell like crazy” and make every sale count?
- You are a tech-support specialist for a small computer software manufacturer. Your supervisor informs you that a bug has been found in the software that will take several weeks to fix. You are instructed to handle all calls without admitting the existence of the bug. Specific examples are provided to divert customers’ concerns with suggestions of user error, hardware issues, and conflicts with other software packages. The bug, you are told, will be fixed in a scheduled version upgrade without any admission of its existence. Could you do that?

How organizations reach a point in their growth where such behavior can become the norm, and how employees of those organizations find a way to work in such environments, is what the field of business ethics is all about.

FRONTLINE FOCUS

Doing the Right Thing—Megan Makes a Decision

Kate was right; they did receive several more applications at the open house, but each one was less attractive as a potential tenant than the Wilsons. Some had credit problems, others couldn't provide references because they had been "living with a family member," and others had short work histories or were new to the area.

This left Megan with a tough choice. The Wilsons were the best applicants, but Kate had made her feelings about them very clear, so Megan's options were fairly obvious—she could follow Kate's instructions and bury the Wilsons' application in favor of another couple, or she could give the apartment to the best tenants and run the risk of making an enemy of her new boss.

The more Megan thought about the situation, the angrier she became. Not giving the apartment to the Wilsons was discriminatory and would expose all of them to legal action if the Wilsons ever found out—plus it was just plain wrong. There was nothing in their application that suggested that they would be anything other than model tenants, and just because Kate had experienced bad tenants like "those people" in the past, there was no reason to group the Wilsons with that class.

Megan picked up the phone and started dialing. "Mrs. Wilson? Hi, this is Megan with Oxford Lake Apartments. I have some wonderful news."

QUESTIONS

1. Did Megan make the right choice here?
2. What do you think Kate's reaction will be?
3. What would have been the risks for Oxford Lake if Megan had decided not to rent the apartment to the Wilsons?

[For Review]

1. Define ethics.

Ethics is the study of how we try to live our lives according to a standard of "right" or "wrong" behavior—in both how we think and behave toward others and how we would like them to think and behave toward us. For some, it is a conscious choice to follow a set of moral standards or ethical principles that provide guidance on how they should conduct themselves in their daily lives. For others, where the choice is not so clear, they look to the behavior of others to determine what is an acceptable standard of right and wrong or good and bad behavior.

2. Explain the role of values in ethical decision making.

Values represent a set of personal principles by which you aim to live your life. Those principles are most often based on religious, cultural, or philosophical beliefs that you have developed over time as a collection of influences from family, friends, school, religion, ethnic background, the media, and your personal mentors and role models. When you try to formalize these principles into a code of behavior, then you are seen to be adopting a value system that becomes your benchmark in deciding which choices and behaviors meet the standard of "doing the right thing."

3. Understand opposing ethical theories and their limitations.

Ethical theories can be divided into three categories: virtue ethics (focusing on individual character and integrity); ethics for the greater good, also referred to as utilitarianism (focusing on the choices that offer the greatest good for the greatest number of people); and

universal ethics (focusing on universal principles that should apply to all ethical judgments, irrespective of the outcome). Each category is limited by the absence of a clear sense of accountability for the choices being made. As we have seen in this chapter, individual character and integrity can depend on many influences and are therefore unlikely to be a consistent standard. Utilitarianism only focuses on the outcome of the choice without any real concern for the virtue of the actions themselves, and human history has produced many atrocities that have been committed in the name of the "end justifying the means." At the other end of the scale, staying true to morally pure ethical principles without considering the outcome of that choice is equally problematic.

4. Discuss ethical relativism.

In the absence of a truly comprehensive theory of ethics and a corresponding model or checklist to guide them, many people choose to approach ethical decisions by pursuing the comfort of an ethical majority that reflects a combination of the traditions of their society, their personal opinions, and the circumstances of the present moment. This relativist approach offers more flexibility than the pursuit of definitive black-and-white rules. However, the pursuit of an ethical majority in a peer pressure situation can sometimes have negative consequences.

5. Explain an ethical dilemma, and apply a process to resolve it.

An ethical dilemma is a situation in which there is no obvious right or wrong decision, but rather a right or

right answer. In such cases you are required to make a choice even though you are probably leaving an equally valid choice unmade and contradicting a personal or societal ethical value in making that choice. There is no definitive checklist for ethical dilemmas because the issues are often situational in nature. Therefore, the best hope for a “right” choice can often

fall to the “lesser of two evils” and an outcome you can live with. Arthur Dobrin offers eight questions that should be asked to ensure that you have as much relevant information available as possible (in addition to a clear sense of what you don’t know) as to the available choices, the actions needed for each choice, and the anticipated consequences of each choice.

[Key Terms]

Applied Ethics

Culture

Ethical Dilemma

Ethical Reasoning

Ethical Relativism

Ethics

The Golden Rule

Instrumental Value

Intrinsic Value

Society

Universal Ethics

Utilitarianism

Value System

Virtue Ethics

[Review Questions]

1. Why do we study ethics?
2. Why should we be concerned about doing “the right thing”?
3. If each of us has a unique set of influences and values that contribute to our personal value system, how can that be applied to a community as a whole?
4. Is it unrealistic to expect others to live by the Golden Rule?
5. Consider how you have resolved ethical dilemmas in the past. What would you do differently now?
6. What would you do if your resolution of an ethical dilemma turned out to be the wrong approach and it actually made things worse?

[Review Exercises]

How would you act in the following situations? Why? How is your personal value system reflected in your choice?

1. You buy a candy bar at the store and pay the cashier with a \$5 bill. You are mistakenly given change for a \$20 bill. What do you do?
2. You are riding in a taxicab and notice a \$20 bill that has obviously fallen from someone’s wallet or pocketbook. What do you do?
3. You live in a small Midwestern town and have just lost your job at the local bookstore. The best-paying job you can find is at the local meatpacking plant, but you are a vegetarian and feel strongly that killing animals for food is unjust. What do you do?
4. You are having a romantic dinner with your spouse to celebrate your wedding anniversary. Suddenly, at a nearby table, a man starts yelling at the young woman he is dining with and becomes so verbally abusive that she starts to cry. What do you do?
5. You are shopping in a department store and observe a young man taking a watch from a display stand on the jewelry counter and slipping it into his pocket. What do you do?
6. You are the manager of a nonprofit orphanage. At the end of the year, a local car dealer approaches you with a proposition. He will give you a two-year-old van worth \$10,000 that he has just taken as a trade-in on a new vehicle if you will provide him with a tax-deductible donation receipt for a new van worth \$30,000. Your current transportation is in very bad shape, and the children really enjoy the field trips they take. Do you accept his proposition?

[Internet Exercises]

1. Visit the Center for the Study of Ethics in the Professions (CSEP) at the Illinois Institute of Technology: <http://ethics.iit.edu>.
 - a. What is the stated mission of CSEP?
 - b. Identify and briefly summarize a current CSEP research project.

- c. Explain the purpose of the “NanoEthicsBank.”
 - d. Do you think that an “Ethics Bowl” competition at your institution would be useful in discussing the issues of professional ethics? Why or why not?
2. In these days of increasing evidence of questionable ethical practices, many organizations, communities, and business schools are committing to ethics pledges as a means of underscoring the importance of ethical standards of behavior in today’s society. Using Internet research, find two examples of such pledges and answer the following questions:
- a. Why did you select these two examples specifically?
 - b. Why did each entity choose to make an ethical pledge?
 - c. In what ways are the pledges similar and different?
 - d. If you proposed the idea of an ethics pledge at your school or job, what do you think the reaction would be?

[Team Exercises]

1. Take me out to the cheap seats.

Divide into two groups, and prepare arguments *for* and *against* the following behavior: *My dad takes me to a lot of baseball games and always buys the cheapest tickets in the park. When the game starts, he moves to better, unoccupied seats, dragging me along. It embarrasses me. Is it OK for us to sit in seats we didn’t pay for?*

2. Umbrella exchange.

Divide into two groups, and prepare arguments *for* and *against* the following behavior: *One rainy evening I wandered into a shop, where I left my name-brand umbrella in a basket near the door. When I was ready to leave, my umbrella was gone. There were several others in the basket, and I decided to take another name-brand umbrella. Should I have taken it, or taken a lesser-quality model, or just gotten wet?*

3. A gift out of the blue.

Divide into two groups, and prepare arguments *for* and *against* the following behavior: *I’m a regular customer of a men’s clothing mail-order company, and it sends me new catalogs about six times a year. I usually order something because the clothes are good quality with a money-back guarantee, and if the item doesn’t fit or doesn’t look as good on me as it did in the catalog, the return process is very easy. Last month I ordered a*

couple of new shirts. When the package arrived, there were three shirts in the box, all in my size, in the three colors available for that shirt. There was no note or card, and the receipt showed that my credit card had been charged for two shirts. I just assumed that someone in the shipping department was recognizing me as a valuable customer—what a nice gesture, don’t you think?

4. Renting a dress?

Divide into two groups, and prepare arguments *for* and *against* the following behavior: *My friend works for a company that manages fund-raising events for nonprofit organizations—mostly gala benefits and auctions. Since these events all take place in the same city, she often crosses paths with the same people from one event to the other. The job doesn’t pay a lot, but the dress code is usually very formal. To stretch her budget and ensure that she’s not wearing the same dress at every event, she buys dresses, wears them once, has them professionally dry-cleaned, reattaches the label using her own label gun, and returns them to the store, claiming that they were the wrong color or not a good fit. She argues that the dry-cleaning bill is just like a rental charge, and she always returns them for store credit, not cash. The dress shop may have made a sale, but is this fair?*

Source: Exercises 1 and 2 adapted from Randy Cohen, *The Good, the Bad, and the Difference: How to Tell Right from Wrong in Everyday Situations* (New York: Doubleday, 2002), pp. 194–201.

Thinking Critically 1.1

>> THREE CUPS OF TEA • Mismanagement or fraud?

In April 2011, exposés by journalist Jon Krakauer and *60 Minutes* correspondent Steve Kroft cast a dark shadow over the work of Greg Mortenson, a medic, mountaineer, and education advocate whose charity work in Pakistan and Afghanistan had been documented in two best-selling books, *Three Cups of Tea* and *Stones into Schools*. The success of *Three Cups of Tea* (over 5 million copies of the book have been sold) had led to large donations to Mortenson's charity, the ambitiously named Central Asia Institute (CAI), which was originally founded with a \$1 million donation by Swiss physicist and fellow mountaineer Dr. Jean Hoerni in 1996.

Three Cups of Tea, written in the third person as an account of Mortenson's life by coauthor David Oliver Relin, begins with Mortenson failing to climb K2, the second-highest mountain on earth, in honor of his little sister Christa, who died in 1992. Exhausted and disoriented in unfamiliar surroundings, Mortenson stumbles into a village that he believes to be Askole. The village is actually Korphe, but the villagers welcome him and take care of him (with multiple cups of tea) while he recuperates from his extreme exhaustion. Mortenson is inspired by their generosity and promises to return and to build them a school.

Fast forward to 2011. Mortenson's charity, CAI, had received over \$72 million in donations since 2003 (including \$100,000 donated by President Barack Obama from his Nobel Peace Prize in 2009—an award for which, ironically, Mortenson was also nominated) and had \$23 million in reserves. Mortenson had given over 500 speaking engagements in the preceding four years, and the CAI had, it claimed, built over 170 schools in Central Asia and was actively supporting dozens more. *Three Cups of Tea* had become required reading for all western military personnel assigned to Central Asia.

Subsequent investigative reporting by Krakauer and CBS correspondent Steve Kroft alleged that much of Mortenson's story was either significantly embellished or fabricated—he didn't lose his way descending from K2; he wasn't rescued by the villagers of Korphe; and he was never captured by the Taliban in 1996 as he claimed in *Three Cups of Tea*. It was further alleged that he was mismanaging the CAI and using it as his "personal ATM." Specific details were later made public in court records that appeared to support these allegations:

- In 2009–2010 Mortenson and his family charged personal items to CAI in the amount of \$75,276 that included "LL Bean clothing, iTunes, luggage, luxurious accommodations, and even vacations."
- CAI spent more than \$2 million on private charter flights for Mortenson's speaking engagements, even when he was reimbursed for travel fees by event organizers.
- Standard speaking fees started at \$15,000 in 2008, with 25 percent of that going to the Penguin Speakers Bureau (Penguin was Mortenson's publisher). In subsequent years, that rate increased to \$35,000, with Penguin Speakers Bureau getting the same 25 percent. Mortenson kept the balance of all fees.
- On average, only 41 percent of donations went to CAI's work in Central Asia—much of the rest went to bulk purchases (\$3 million) of his books at full retail price to keep them on the best-seller lists (with Mortenson keeping the royalties), to travel expenses, and to advertising costs for the books (\$5 million).

Mortenson's defenders argued that he was "more of a founding visionary than the disciplined CEO necessary to run a \$20 million-a-year charity." However, investigations by the attorney general of the State of Montana in response to a civil lawsuit verified most of the allegations made against Mortenson. CAI responded by agreeing to a repayment amount by Mortenson of \$1 million, by removing him from day-to-day operations (though he remained in a "visionary" capacity with the organization), and by appointing a new, larger board of directors. Other civil litigation was ongoing.

Mortenson, by contrast, blamed his coauthor's "artistic license" and "time compression" in telling his story as being at the root of much of the confusion and misinformation surrounding CAI. Penguin Publishing, the publisher, admitted that minimal fact checking was performed in reviewing the first draft of the book.

Krakauer, whose 2011 report on *Byliner.com*, "Three Cups of Deceit," had brought the original allegations against Mortenson, wrote a follow-up piece for *The Daily Beast* in April 2013. The CAI, it appeared, had dismissed most of the issues raised as nothing more than growing pains for the organization. Mortenson was still very much the public face of the charity, at an annual salary of over \$180,000. Krakauer's follow-up report went on to present a list of evidence of continued financial mismanagement in addition to Mortenson's persistent attempts to run CAI as his own fiefdom, even in the face of stricter board oversight.



DoD photo by Sgt. 1st Class William A. Jones, U.S. Army

In November 2015, under increasing pressure from declining donations and persistent media scrutiny, Mortenson announced his retirement from CAI as both an employee and nonvoting member of the board. While donations had fallen from \$22.8 million in 2010 to only \$2.2 million in 2014, Mortenson had continued to draw an annual salary, earning \$194,000 in 2014. As part of the announcement, Mortenson stated that he had agreed to consult with CAI for its overseas programs occasionally, which prompted Krakauer to comment: "I am concerned CAI apparently does not intend to sever all ties with Mortenson, which suggests that the board still doesn't comprehend the harm Mortenson has done."

In September 2016, a documentary directed by Mortenson's friend Jennifer Jordan and her husband, videographer Jeff Rhoads, was released. Titled *3000 Cups of Tea*, the documentary directly refuted all of the allegations made by both *60 Minutes* and Krakauer, claiming that the attacks on Mortenson were unprovoked and unwarranted. Any inaccuracies and misrepresentations that Mortenson himself had already acknowledged were dismissed as being "insignificant" and as having done "no real harm."

The Central Asia Institute continues to operate, although with reported contributions of only \$3.76 million in fiscal year ending September 2016 (according to reports filed with Charity Navigator), but the heady days of Mortenson's fame seem far behind them.

QUESTIONS

1. Based on the evidence presented in this case study, was Mortenson's work at the CAI an example of deliberate fraud or mismanagement? Defend your position.
2. How does the conduct of the CAI board relate to this case?
3. From a business ethics perspective, which was worse, the conduct of the CAI board or the conduct of Mortenson himself? Why?
4. Why would CAI want to keep Mortenson in a "visionary" capacity?
5. If Mortenson's claims have misled donors, should the CAI return the money? Why or why not?
6. What should be done to restore the reputation of the CAI?

Sources: Matt Volz, "Greg Mortenson, 'Three Cups of Tea' Author, Must Repay Charity \$1 Million: Report," *Associated Press*, April 5, 2012; Alex Heard, "The Trials of Greg Mortenson," *Outside Online*, February 12, 2012; Katha Pollitt, "The Bitter Tea of Greg Mortenson," *The Nation*, April 27, 2011; Nicholas D. Kristoff, "Three Cups of Tea, Spilled," *The New York Times*, April 20, 2011; Peter Hessler, "What Mortenson Got Wrong," *The New Yorker*, April 21, 2011; Jon Krakauer, "Three Cups of Deceit," *Byliner*, April 2011, updated June 2017; Jon Krakauer, "Is It Time to Forgive Greg Mortenson?" *The Daily Beast*, April 8, 2013; and Eleanor Goldberg, "Disgraced 'Three Cups of Tea' Author to Retire from Charity He Founded," *The Huffington Post*, November 20, 2015.

Thinking Critically 1.2

>> THE MAN WHO SHOCKED THE WORLD



Jan Rieckhoff/ullstein bild/Getty Images

In July 1961, a psychologist at Yale University, Dr. Stanley Milgram, a 28-year-old Harvard graduate with a PhD in social psychology, began a series of experiments that were destined to shock the psychological community and reveal some disturbing insights into the capacity of the human race to inflict harm on one another. Participants in the experiments were members of the general public who had responded to a newspaper advertisement for volunteers in an experiment on punishment and learning.

The "teacher" in the experiment (one of Milgram's team of researchers) instructed the participants to inflict increasingly powerful electric shocks on a test "learner" every time the learner gave an incorrect answer to a word-matching task. The shocks started, in theory, at the low level of 15 volts and increased in 15-volt increments up to a potentially fatal shock of 450 volts. In reality, the voltage machine was an elaborate stage prop, and the learner was an actor screaming and imitating physical suffering as the voltage level of each shock appeared to increase. The participants were told about the deception at the end of the experience, but during the experiment they were led to believe that the voltage and the pain being inflicted were real. The teacher used no force or intimidation in the experiment other than maintaining an air of academic seriousness.

The experiment was repeated more than 20 times using hundreds of research subjects. In every case the majority of the subjects failed to stop shocking the learners, even when they believed they were inflicting a potentially fatal voltage and the learner had apparently stopped screaming with pain. Some did plead to stop the test, and others argued with the teacher that the experiment was going wrong, but in the end, the majority of them obeyed the instructions of the teacher to the letter.

It's important to remind ourselves that these research participants were not criminals or psychopaths with a documented history of sadistic behavior. They were average Americans who responded to an ad and came in off the street to take part. What Milgram's research appears to tell us is that people are capable of suspending their own individual morality to someone in authority—even killing someone just because they were instructed to do it.

Milgram's research shocked the academic world and generated heated debate about the ethical conduct of the study and the value of the results in comparison to the harm inflicted on the research participants who were led to believe that it was all really happening. That debate continues to this day, even though subsequent repetitions of the study in various formats have validated Milgram's original findings. Almost 50 years later, we are faced with research data that suggest ordinary human beings are capable of performing destructive and inhumane acts without any physical threat of harm to themselves. As Thomas Bass commented, "While we would like to believe that when confronted with a moral dilemma we will act as our conscience dictates, Milgram's obedience experiments teach us that in a concrete situation with powerful social constraints, our moral senses can easily be trampled."

In 2015, Magnolia Pictures released the movie *Experimenter*, starring Peter Sarsgaard as Milgram. The movie documents Milgram's surprise and alarm at how many of the study participants were willing to proceed to the highest level of electric shocks, despite their personal reservations, because the formal design of the experiment required them to. It also examines the objections and concerns that Milgram's research prompted in the academic community, resulting in Milgram's denial for tenure at Harvard after his research approaches were deemed to be unethical.

QUESTIONS

1. Critics of Milgram's research have argued that the physical separation between the participant and the teacher in one room and the learner in the other made it easier for the participant to inflict the shocks. Do you think that made a difference? Why or why not?
2. The treatment of the participants in the study raised as much criticism as the results the study generated. Was it ethical to mislead them into believing that they were really inflicting pain on the learners? Why?
3. The participants were introduced to the learners as equal participants in the study—that is, volunteers just like them. Do you think that made a difference in the decision to keep increasing the voltage? Why?
4. What do you think Milgram's research tells us about our individual ethical standards?
5. Would you have agreed to participate in this study? Why or why not?
6. Do you think if the study were repeated today we would get the same kind of results? Why?

Sources: A. Cohen, "Four Decades after Milgram, We're Still Willing to Inflict Pain," *The New York Times*, December 29, 2008; A. Altman, "Why We're OK with Hurting Strangers," www.time.com, December 19, 2008; and www.magpictures.com/experimenter/; Thomas Bass, *The Man Who Shocked The World: The Life and Legacy of Stanley Milgram* (London: Hachette UK, 2009).

Thinking Critically 1.3

>> LIFE AND DEATH • Elder suicide or dignified exit? A letter from Ohio

I'm 80. I've had a good life—mostly pretty happy, though certainly with its ups and downs. My wife died seven years ago. My children are healthy and happy, busy with their kids, careers, friends. But I know they worry about me; they feel increasingly burdened with thoughts about how to care for me when I can no longer care for myself, which—let's not kid ourselves—is coming all too soon. I live four states away from them so either they will have to uproot me and move me close to them or I'll have to go live in a nursing home. I don't relish either option. This town has been my home for nearly my whole adult life, and I don't fancy leaving. On the other hand, I do not want to live among strangers and be cared for by those who are paid minimum wage to wash urine-soaked sheets and force-feed pudding to old people.



Pixtal/age fotostock

I'm in decent health—for the moment. But things are slipping. I have prostate cancer, like just about every other man my age. It probably won't kill me . . . but having to get up and pee four or five times a night, standing over the bowl for long minutes just hoping something will come out, this might do me in. My joints are stiff, so it doesn't really feel good to walk. I've got bits and pieces of skin cancer here and there that need to be removed. These things are all treatable, or so they say (there are pills to take and procedures to have done). But it seems to me a waste of money. Why not pass my small savings on to my grandkids, to give them a jump on college tuition?

What I don't understand is why people think that it is wrong for someone like me to just call it a day, throw in the towel. How can it be possible that I don't have a right to end my own life, when I'm ready? (But apparently I don't.)

I'm tired and I'm ready to be done with life. I'd so much rather just quietly die in my garage with the car running than eke out these last few compromised years. (Even better would be a quick shot or a small dose of powerful pills—but, alas, these are not at my disposal.)

But if I do myself in, I will be called a suicide. My death will be added to the statistics: another "elder suicide." How sad! (Doesn't the fact that so many elderly people commit suicide—and with much greater rates of success, I must say, than any other demographic group—tell you something?) Why can't this society just come up with a humane, acceptable plan for those of us ready to be finished? Why can't we

old folks go to city hall and pick up our End-of-Life Packet, with the financial and legal forms to bring things into order for our children, with assistance on how to recycle all our unneeded furniture and clothes, and with a neat little pack of white pills: When ready, take all 10 pills at once, with plenty of water. Lie down quietly in a comfortable place, close your eyes, and wait.

How can choosing my own end at my own time be considered anything other than a most dignified final exit?

— Anonymous, June 2003

QUESTIONS

1. Should people have the moral right to end their lives if they so please?
2. Does being near the end of one's life make the decision to end it justified?
3. What might the phrase "right to die" mean?
4. Do people have the right to seek assistance in dying?
5. Do people have the right to give assistance in dying?
6. What kind of restrictions, if any, should there be on assisted suicide?

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Design Elements: *Ethical Dilemma* arrows: McGraw Hill; *Key Point paper stack*: McGraw Hill; *Life Skills checklist*: Natthawat Jamnapa/123RF; *Real-World Applications notepad with pen*: MistikaS/Getty Images

CHAPTER 2

DEFINING BUSINESS ETHICS



Dave and Les Jacobs/Blend Images

A large company was hiring a new CEO. The four leading candidates worked inside the company so the board decided to ask each candidate a very basic question. The comptroller was brought in. “How much is 2 plus 2?” “This must be a trick question, but the answer is 4. It will always be 4.” They brought in the head of research and development, an engineer by training. “How much is 2 plus 2?” “That depends on whether it is a positive 2 or a negative 2. It could be 4, zero, or minus 4.” They brought in the head of marketing. “The way I figure it, 2 plus 2 is 22.” Finally, they brought in legal counsel. “How much is 2 plus 2?” they asked. He looked furtively at each board member. “How much do you want it to be?”

Tom Selleck, Commencement Speech, Pepperdine University, 2000

LEARNING OUTCOMES

After studying this chapter, you should be able to:

- 2-1** Define the term *business ethics*.
 - 2-2** Identify an organization’s stakeholders.
 - 2-3** Discuss the position that business ethics is an oxymoron.
 - 2-4** Summarize the history of business ethics.
 - 2-5** Identify and propose a resolution for an ethical dilemma in your work environment.
 - 2-6** Explain how executives and employees seek to justify unethical behavior.
-

FRONTLINE FOCUS

The Customer Is Always Right

Carol was the shift leader at a local fast-food restaurant. She started working there as a summer job for gas money for the old Honda Civic she used to drive. That was more years ago than she cared to remember, and she had managed to upgrade her car to something far more reliable these days. She enjoyed working for this company. The job was hard on her feet, but when she hit the breakfast, lunch, or dinner rush, she was usually too busy to notice.

Today was an important day. Dave, the store manager, had called an “all staff meeting” to discuss the new healthy menu that the company had launched in response to public pressure for healthier lunch choices—lots of salads and new options for their side items. It was going to take a lot of work to get her staff up to speed, and Carol expected that a lot of the customers would need extra time to work through all the new options, but overall she liked the new menu. She thought that the new lower-priced items would bring in a lot of new customers who were looking for something more than burgers and fries.

The company had sent a detailed information kit for the new menu, and Dave covered the material very thoroughly. As he finished the last PowerPoint slide, he asked if anyone had any questions. Since they had been in the meeting for over an hour, her team was very conscious of all the work that wasn’t getting done for the lunch rush, so no one asked any questions.

As a last comment Dave said: “This new menu should hopefully bring in some new customers, but let’s not forget what we’re doing here. We’re here to make money for our shareholders, and to do that, we have to make a profit. So we’re only going to make a limited number of these new items. If they run out, offer customers something from the regular menu and don’t forget to push the ‘up-size’ menu options and ice creams for dessert—those are still our most profitable items. And if someone wants one of these new healthy salads, make sure you offer them an ice cream or shake to go with it.”

Carol was amazed. The company was making a big push for this new menu and spending a ton of money on advertising, and here was Dave planning to sabotage it just because he was afraid that these lower-priced items would hurt his sales (and his bonus!).

QUESTIONS

1. Look at **Figures 2.1** and **2.2**, and identify which stakeholders would be directly impacted by Dave’s plan to sabotage the new healthy menu.
2. Describe the ethical dilemma that Carol is facing here.
3. What should Carol do now?

>> Defining Business Ethics

Business ethics involves the application of standards of moral behavior to business situations. Just as we saw in our review of the basic ethical concepts of right and wrong in **Chapter 1**, students of business ethics can approach the topic from two distinct perspectives:

1. A *descriptive* summation of the customs, attitudes, and rules that are observed within a business. As such, we are simply documenting what is happening.
2. A *normative* (or *prescriptive*) evaluation of the degree to which the observed customs, attitudes, and rules can be said to be ethical. Here we are more interested in recommending what should be happening.

In either case, business ethics should not be applied as a separate set of moral standards or ethical concepts from general ethics. Ethical behavior, it is argued, should be the same both inside and outside a business situation. By recognizing the challenging environment of business, we are acknowledging the identity of the key players impacted by any potentially unethical behavior—the stakeholders. In addition, we can identify the troubling situation where your personal values may be placed in direct conflict with the standards of behavior you feel are expected of you by your employer.

>> Who Are the Stakeholders?

Figure 2.1 maps out the relevant **stakeholders** for any organization and their respective interests in the ethical operation of that organization. Not every stakeholder will be relevant in every business situation—not all companies use wholesalers to deliver their products or services to their customers, and customers would not be involved in payroll decisions between the organization and its employees.

Stakeholder Someone with a share or interest in a business enterprise.

FIG. 2.1 Stakeholder Interests

Stakeholders	Interest in the Organization
Stockholders or shareholders	<ul style="list-style-type: none"> • Growth in the value of company stock • Dividend income
Employees	<ul style="list-style-type: none"> • Stable employment at a fair rate of pay • A safe and comfortable working environment
Customers	<ul style="list-style-type: none"> • “Fair exchange”—a product or service of acceptable value and quality for the money spent • Safe and reliable products
Suppliers/vendor partners	<ul style="list-style-type: none"> • Prompt payment for delivered goods • Regular orders with an acceptable profit margin
Retailers/wholesalers	<ul style="list-style-type: none"> • Accurate deliveries of quality products on time and at a reasonable cost • Safe and reliable products
Federal government	<ul style="list-style-type: none"> • Tax revenue • Operation in compliance with all relevant legislation
Creditors	<ul style="list-style-type: none"> • Principal and interest payments • Repayment of debt according to the agreed schedule
Community	<ul style="list-style-type: none"> • Employment of local residents • Economic growth • Protection of the local environment

Of greater concern is the involvement of these stakeholders with the actions of the organization and the extent to which they would be impacted by unethical behavior. As **Figure 2.2** illustrates, the decision of an organization such as WorldCom in the late 1990s to hide the extensive debt and losses it was accumulating in its aggressive pursuit of growth and market share can be seen to have impacted all its stakeholders in different ways.

FIG. 2.2 Stakeholder Impact from Unethical Behavior

Stakeholders	Interest in the Organization
Stockholders or shareholders	<ul style="list-style-type: none"> • False and misleading financial information on which to base investment decisions • Loss of stock value • Cancellation of dividends
Employees	<ul style="list-style-type: none"> • Loss of employment • Not enough money to pay severance packages or meet pension obligations

Stakeholders	Interest in the Organization
Customers	<ul style="list-style-type: none"> Poor service quality (as WorldCom struggled to combine the different operating and billing systems of each company it acquired, for example)
Suppliers/vendor partners	<ul style="list-style-type: none"> Delayed payment for delivered goods and services Unpaid invoices when the company declared bankruptcy
Federal government	<ul style="list-style-type: none"> Loss of tax revenue Failure to comply with all relevant legislation
Creditors	<ul style="list-style-type: none"> Loss of principal and interest payments Failure to repay debt according to the agreed schedule
Community	<ul style="list-style-type: none"> Unemployment of local residents Economic decline

PROGRESS ✓ QUESTIONS

1. Explain the term *business ethics*.
2. Explain the difference between a descriptive and prescriptive approach to business ethics.
3. Identify six stakeholders of an organization.
4. Give four examples of how stakeholders could be negatively impacted by unethical corporate behavior.

>> An Ethical Crisis: Is *Business Ethics* an Oxymoron?

Our objective in identifying the types of unethical concerns that can arise in the business environment and the impact that such unethical behavior can have on the stakeholders of an organization is to develop the ability to anticipate such events and ultimately to put the appropriate policies and procedures in place to prevent such behavior from happening.

Unfortunately, over the past two decades, the ethical track record of many organizations would lead us to believe that no such policies or procedures have been in place. The standard of **corporate governance**, the extent to which the officers of a corporation are fulfilling the duties and responsibilities of their offices to the relevant stakeholders, appears to be at the lowest level in business history:

- Several prominent organizations (all former “Wall Street darlings”)—Enron, WorldCom, Lehman Brothers, Bear Stearns—were found to have hidden the true state of their precarious finances from their stakeholders.
- Others—Adelphia Cable, Tyco, Merrill Lynch—were found to have senior officers who appeared to regard the organization’s funds as their personal bank accounts.
- Financial reports are released that are then restated at a later date.
- Products are rushed to market that have to be recalled at a later date due to safety problems (Takata air bags).
- Organizations are being sued for monopolistic practices (Microsoft), race and gender discrimination (Walmart, Texaco, Denny’s), and environmental contamination (GE).
- CEO salary increases far exceed those of the employees they lead.
- CEO salaries have increased while shareholder returns have fallen. According to the High Pay Centre, for example, Bob Dudley, the chief executive of oil giant BP, received a 20 percent pay increase to nearly \$20 million in 2015, despite laying off 7,000 employees and overseeing a performance deficit of \$6.5 billion.

Corporate Governance The system by which business corporations are directed and controlled.

It is understandable, therefore, that many observers would believe that the business world lacks any sense of ethical behavior whatsoever. Some would even argue that the two words are as incompatible as *government efficiency*, *Central Intelligence Agency*, or *authentic reproduction*, but is *business ethics* really an **oxymoron**?

Oxymoron The combination of two contradictory terms, such as “deafening silence” or “jumbo shrimp.”

It would be unfair to brand every organization as fundamentally unethical in its business dealings. There’s no doubt that numerous prominent organizations that were previously held as models of aggressive business management (e.g., Enron, Global Crossing, HealthSouth, IMClone, Tyco, and WorldCom) have later been proved to be fundamentally flawed in their ethical practices. This has succeeded in bringing the issue to the forefront of public awareness. However, the positive outcome from this has been increased attention to the need for third-party guarantees of ethical conduct and active commitments from the rest of the business world. Institutions such as the Ethics and Compliance Officer Association (now part of the Ethics and Compliance Initiative (ECI)), the Ethics Resource Center (also part of the ECI), and the Society of Corporate Compliance and Ethics, among others, now offer organizations clear guidance and training in making explicit commitments to ethical business practices.¹

So while these may not be the best of times for business ethics, it could be argued that the recent negative publicity has served as a wake-up call for many organizations to take a more active role in establishing standards of ethical conduct in their daily operations. One of the key indicators in this process has been the increased prominence of a formal **code of ethics** in an organization’s public statements. The Ethics Resource Center (ERC) defines a code of ethics as:²

A central guide to support day-to-day decision making at work. It clarifies the cornerstones of your organization—its mission, values and principles—helping your managers, employees and stakeholders understand how these cornerstones translate into everyday decisions, behaviors and actions. While some may believe codes are designed to limit one’s actions, the best codes are actually structured to liberate and empower people to make more effective decisions with greater confidence.

Code of Ethics A company’s written standards of ethical behavior that are designed to guide managers and employees in making the decisions and choices they face every day.



How do conversations regarding ethics change when your business is closely linked to human well-being? Should ethical standards be different for a hospital or day care center?

(Left): Custom Medical Stock Photo/Alamy Stock Photo; (Right): DGLimages/Shutterstock

PROGRESS ✓ QUESTIONS

5. Define the term *oxymoron* and provide three examples.
6. Is the term *business ethics* an oxymoron? Explain your answer.
7. Define the term *corporate governance*.
8. Explain the term *code of ethics*.

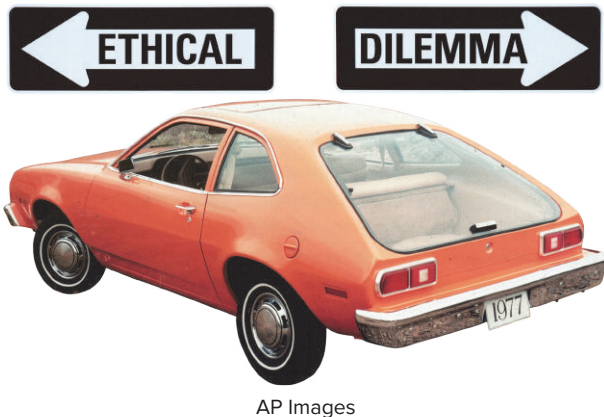


KEY POINT

Does your company have a code of ethics? Where is it published? How frequently does the company promote it?

The code of ethics can be seen to serve a dual function. As a message to the organization's stakeholders, the code should represent a clear corporate commitment to the highest standards of ethical behavior. As an internal document, the code should represent a clear guide to managers and employees in making the decisions and choices they face every day. Unfortunately, as you will see in many of the case studies and discussion exercises in this book, a code of ethics can be easily sidestepped or ignored by any organization.

THE FORD PINTO



AP Images

Forty years after its production, the Ford Pinto is still remembered as a dangerous firetrap.

In the late 1960s, the baby boom generation was starting to attend college. With increasing affluence in America, demand for affordable transportation increased, and foreign carmakers captured the market with models like the Volkswagen Beetle and Toyota Corolla. Ford needed a competitive vehicle, and Lee Iacocca authorized production of the Pinto. It was to be small and inexpensive—under 2,000 pounds and under \$2,000. The production schedule had it in dealers' lots in the 1971 model year, which meant that it went from planning to production in under

two years. At the time, it was typical to make a prototype vehicle first and then gear up production. In this case, Ford built the machines that created the shell of the vehicle at the same time as it was designing the first model. This concurrent development shortened production time but made modifications harder.

The compact design used a so-called saddlebag gas tank, which straddled the rear axle. In tests, rear impacts over 30 mph sometimes caused the tank to rupture in such a way that it sprayed gas particles into the passenger compartment, somewhat like an aerosol. Canadian regulations demanded a greater safety factor, and models for export were modified with an extra buffer layer. However, the Pinto met all U.S. federal standards at the time it was made.

Ford actively campaigned against stricter safety standards throughout the production of the Pinto. The government embraced cost-benefit analysis, and Ford's argument against further regulations hinged on the purported benefits. Under pressure, the National Highway Traffic Safety Administration came up with a figure that put a value of just over \$200,000 on a human life. Using this figure, and projecting some 180 burn deaths a year, Ford argued that retrofitting the Pinto would be overly problematic.

At one point, more than 2 million Pintos were on the road, so it is not surprising that they were involved in a number of crashes. However, data began to indicate that some

kinds of crashes, particularly rear-end and rollover crashes, were more likely to produce fires in the Pinto than in comparable vehicles. A dramatic article in *Mother Jones* drew on internal Ford memos to show that the company was aware of the safety issue and indicted the company for selling cars “in which it knew hundreds of people would needlessly burn to death.” It also claimed that installing a barrier between the tank and the passenger compartment was an inexpensive fix (less than \$20). In 1978, in an almost unprecedented case in Goshen, Indiana, the state charged the company itself with the criminal reckless homicide of three young women. The company was acquitted, largely because the judge confined the evidence to the particular facts—the car was stalled and rammed at high speed by a pickup truck—but Ford was faced with hundreds of lawsuits and a severely tarnished reputation.

Under government pressure, and just before new standards were enacted, Ford recalled 1.5 million Pintos in 1978. The model was discontinued in 1980.

Lee Iacocca said that his company did not deliberately make an unsafe vehicle, that the proportion of deadly accidents was not unusually high for the model, and that the controversy was essentially a legal and public relations issue.

QUESTIONS

1. Should a manufacturer go beyond government standards if it feels there may be a potential safety hazard with its product?
2. Once the safety issue became apparent, should Ford have recalled the vehicle and paid for the retrofit? Should it have invited owners to pay for the new barrier if they so chose? If only half the owners responded to the recall, what would the company's obligation be?
3. Is there a difference for a consumer between being able to make a conscious decision about upgrading safety features (such as side airbags) and relying on the manufacturer to determine features such as the tensile strength of the gas tank?
4. Once Pintos had a poor reputation, they were often sold at a discount. Do private sellers have the same obligations as Ford if they sell a car they know may have design defects? Does the discount price absolve sellers from any responsibility for the product?

Source: K. Gibson, *Business Ethics: People, Profits, and the Planet* (New York: McGraw-Hill, 2006), pp. 630–32.

>> The History of Business Ethics

Figure 2.3 documents a brief history of business ethics. It illustrates several dramatic changes that have taken place in the business environment over the past five decades:

- The increased presence of an employee voice has made individual employees feel more comfortable speaking out against actions of their employers that they feel to be irresponsible or unethical. They are also more willing to seek legal resolution for such issues as unsafe working conditions, harassment, discrimination, and invasion of privacy.
- The issue of corporate social responsibility has advanced from an abstract debate to a core performance-assessment issue with clearly established legal liabilities.
- Corporate ethics has moved from the domain of legal and human resource departments into the organizational mainstream with the appointment of corporate ethics officers with clear mandates.
- Codes of ethics have matured from cosmetic public relations documents into performance-measurement documents that an increasing number of organizations are now committing to share with all their stakeholders.
- The 2002 Sarbanes-Oxley Act has introduced greater accountability for chief executive officers and boards of directors in signing off on the financial performance records of the organizations they represent.

FIG. 2.3 A Brief History of Business Ethics

Decade	Ethical Climate	Major Ethical Dilemmas	Business Ethics Developments
1960s	Growing concern over the power and influence of the military-industrial complex leads to social unrest and anti-war protests. Increased consumer activism and the development of a more adversarial relationship between employees and management.	<ul style="list-style-type: none"> • Pollution • Profits over people • Civil rights • Product safety • Job security 	<ul style="list-style-type: none"> • Consumers Bill of Rights • Corporate codes of conduct

Decade	Ethical Climate	Major Ethical Dilemmas	Business Ethics Developments
			<ul style="list-style-type: none"> • Expectations of equality, social justice, and economic stability
1970s	Major scandals draw attention to unethical conduct. Nixon's Watergate leads to questions about ethics in government. Greater corporate awareness of public image. Recession exacerbates unemployment and labor issues.	<ul style="list-style-type: none"> • Pollution • Labor issues: workplace safety, wage equality, forced labor • Covering up unethical conduct to protect corporate image 	<ul style="list-style-type: none"> • 1977 Foreign Corrupt Practices Act (FCPA) • Business ethics gains credence as a distinct area of academic study • 1977 Ethics Resource Center (ERC) founded
1980s	Aggressive downsizing by corporations redefines the social contract between employers and employees. Loyalty erodes in the face of a clear message of expendability. Stakeholder model introduced as a construct for business ethics decisions.	<ul style="list-style-type: none"> • Savings and Loan scandal • Bribery and corruption in international contracts. • Waste and fraud in government contracting and defense spending 	<ul style="list-style-type: none"> • 1986 Defense Industry Initiative on Business Ethics and Conduct (DII) • 1986 False Claims Act amended to control waste, fraud and abuse in federal spending
1990s	Expansion of the Internet facilitates global commerce and presents new ethical challenges. Corporate liability cases increase.	<ul style="list-style-type: none"> • Financial fraud • Avoidance of regulations by opening manufacturing plants in developing countries • Corporate liability for personal damage (Dow Chemical, Big Tobacco) 	<ul style="list-style-type: none"> • 1991 Federal Sentencing Guidelines for Organizations (FSGO) • Class-action lawsuits • Legal precedent for Board of Directors' responsibility for business ethics