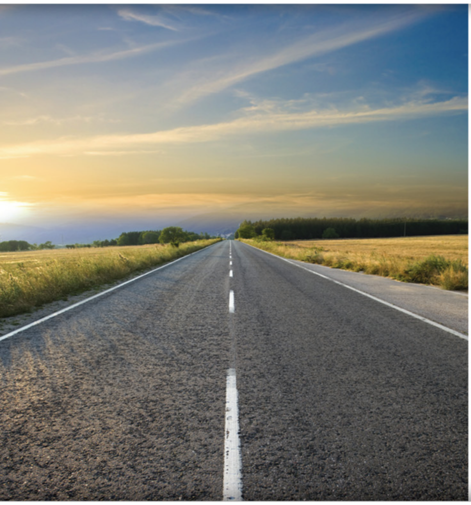
Business Ethics

Decision Making for Personal Integrity & Social Responsibility

FOURTH EDITION



LAURA P. HARTMAN | JOSEPH DESJARDINS | CHRIS MACDONALD

McGraw Hill Education

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Fourth Edition

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BUSINESS ETHICS: DECISION MAKING FOR PERSONAL INTEGRITY AND SOCIAL RESPONSIBILITY, FOURTH EDITION

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To Rachel and Emma.

—Laura Hartman

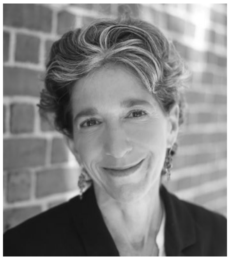
To Michael and Matthew.

—Joe DesJardins

To Georgia.

—Chris MacDonald

About the Authors



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Laura Pincus Hartman is director of the Susilo Institute for Ethics in the Global Economy and clinical professor of business ethics in the department of Organizational Behavior at Boston University. For the past 25 years, Hartman was honored to serve in roles at DePaul University, including associate vice president, Vincent de Paul Professor of Business Ethics at DePaul University's Driehaus College of Business, and director of its Institute for Business and Professional Ethics. She has been an invited professor at INSEAD (France), HEC (France), and the Université Paul Cezanne Aix Marseille III, among other European universities, and she previously held the Grainger Chair in Business Ethics at the University of Wisconsin–Madison. Hartman cofounded and currently serves as executive director of a trailblazing trilingual elementary school in Haiti, the School of Choice/l'Ecole de Choix. She also cofounded an online micro-development, finance, and education system for people living in poverty in Haiti, called Zafèn. Previously, Hartman served as director of external partnerships for Zynga.org, the charitable arm of social game developer Zynga. Her other books include *Rising above Sweatshops: Innovative Management Approaches to Global Labor Challenges, Employment Law for Business, Perspectives in Business Ethics,* and *The Legal Environment of Business: Ethical and Public Policy Contexts.* Hartman graduated from Tufts University and received her law degree from the University of Chicago Law School.

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

Preface

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

Sadly, though we are now several editions into the publication, these very same issues are as much alive today as they were a decade ago—and decades prior to our original publication. While our second edition was preceded by the financial meltdown in 2008–2009 and the problems faced by such companies as AIG, Countrywide, Lehman Brothers, Merrill Lynch, and Bear Stearns, and of the financier Bernard Madoff, this current edition continues to witness financial and ethical malfeasance of historic proportions and the inability of market mechanisms, internal governance structures, or government regulation to prevent it.

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

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

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

Whereas other solid introductory textbooks are available, several significant features make this book distinctive. We emphasize a **decision-making approach** to ethics, and we provide strong **pedagogical support** for both teachers and students throughout the entire book. In addition, we bring both of these strengths to the students through a pragmatic discussion of issues with which they are already often familiar, thus approaching them through subjects that have already generated their interest.

New to the Fourth Edition

While our goal for the fourth edition remains the same as for the first—to provide "a comprehensive yet accessible introduction to the ethical issues arising in business"—readers will notice a few changes. We have retained the same logical structure and chapter organization of previous editions since we have heard from many colleagues and reviewers that this structure works well for a semester-long course in business ethics. But every chapter has been revised to include new and updated material, cases, topics, and readings. Importantly, we continue to provide increased international perspectives, with particular references to Canadian and UK legislation and institutions.

Among the changes to this edition are the following:

New Opening Decision Points for many chapters, including new cases or in-depth discussions on:

- The Olympics
- Executive compensation versus employee pay (at Gravity Payments)
- Benefit corporations
- Digital marketing
- The business of food
- Volkswagen

New cases, Reality Checks, or Decision Points on such topics as:

- Stopping corruption
- Trust in CEOs
- Crony capitalism
- Fooling ourselves
- Stakeholder engagement at Johnson Matthey
- Recognizing the value of stakeholders' trust (at Volkswagen)
- Raising the minimum wage
- Regulating car safety
- Alternative medicine
- Discussion whether all human rights should become legal rights
- What people will say about you when you retire
- Snapchat
- Profits
- Strict products liability and risk management
- GMO food labeling
- Sustainable business
- Triple bottom line
- Zappos' Core Values
- General Motors
- Ethics training programs

- Global culture
- Culture integration
- Timely analyses of the current responses of multinationals to global labor conditions
- Comparison of privacy rights in the United States and Europe

New readings on:

- How bad management leads to bad ethics
- A diverse perspective on culture
- A fresh perspective on Apple's labor conditions in China
- An Asian perspective on sexual harassment
- *Among others*

In addition to this new content, we have updated previous material, including:

- Most cases throughout the text
- Statistics and global applications including the European Union's Data Privacy Accord and the Privacy Shield
- Discussion of culture, including national culture, Hofstede, Jim Collins's more recent work, and the Zappos's management reconfiguration
- Analysis of the recent legal changes on workplace ethics, including the legalization of marijuana in some states and the use by employers of social media investigations during recruitment and selection processes

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

Acknowledgments

A textbook should introduce students to the cutting edge of the scholarly research that is occurring within a field. As in any text that is based in part on the work of others, we are deeply indebted to the work of our colleagues who are doing this research. We are especially grateful to those scholars who graciously granted us personal permission to reprint their materials in this or previous editions:

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Chapter 1

Ethics and Business

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

Warren Buffett

Ethics is the new competitive environment.

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

Without commonly shared and widely entrenched moral values and obligations, neither the law, nor democratic government, nor even the market economy will function properly.

Vaclav Havel, 1936–2011

No snowflake in an avalanche ever feels responsible.

Voltaire, 1694–1778

Opening Decision Point[1] *Zika Virus and Olympic Sponsors*

Early in the summer of 2016—just weeks away from the start of the Summer Olympics, scheduled to be held in Rio de Janeiro, Brazil—a group of nearly 200 prominent scientists, physicians, and ethicists signed a letter strongly suggesting that the International Olympic Committee consider moving or postponing the Games. At issue was the ongoing Zika virus epidemic sweeping through parts of Brazil and a couple of dozen other countries, mostly in Latin and South America. Zika virus is carried by mosquitoes (although it can also be spread sexually); it is rarely serious in adults, but pregnant women who are infected can give birth to babies with severe neurological disorders including microcephaly.

The worry, according to these experts, was that the Rio Games would inevitably speed the spread of the virus globally, as some of the anticipated 500,000 athletes and tourists expected to visit Rio during the event would surely become infected and bring the virus home with them.

The letter focused public attention on the International Olympic Committee (IOC) and the advice that the IOC would get in this regard from the World Health Organization (WHO). As the date of the opening ceremonies approached, neither organization seemed moved by the letter.

But the letter addressed to these international organizations failed to mention the role played by another group of powerful organizations, namely the large corporations sponsoring the Games and that effectively make the Olympics possible. For the 2016 Summer Olympics, "Worldwide Olympic Partners" (that is, top-tier sponsors) included Coca-Cola, Bridgestone, McDonald's, General Electric, Visa, and others. Dozens of other companies were listed as "Official Sponsors," "Official Supporters," or "Suppliers." Becoming a top-tier Worldwide Olympic Partner cost each company more than $100 million. That level of financial commitment presumably brings considerable influence. The question was whether, and how, they would use that influence.

Adding to the confusion was the fact that while many experts were worried, the worry was not unanimous. The head of the U.S. Centers for Disease Control and Prevention (CDC), for example, publicly predicted that the Rio Olympics would not be a factor in spreading the Zika virus.

What should the Olympic sponsors have done? What, if anything, should they have done in light of the concerns expressed in the experts' letter? Should they have encouraged the IOC to move or postpone the Games? This would presumably have cost them money: Each sponsor no doubt already had spent millions on marketing linked to the Olympics, and much of it would have been linked directly to the August timing and to Rio. Changing the date or the place would have been very costly. But then, what about the social responsibility to help control an epidemic?

1. How much responsibility do sponsoring corporations bear for the outcomes of things like the Olympic Games? All the sponsors are doing is paying money to have their logos featured at Olympic venues and the right to use the Olympic logo in their advertising. The Rio sponsors wouldn't be *directly* spreading Zika. Does that indirectness matter, ethically?

2. One danger is that the decision would not be based on ethics at all, and that the organizations involved would fall prey to a general "the Olympics must go on!" attitude. It's widely recognized that a "can-do" attitude is what led the National Aeronautics and Space Administration (NASA) to launch the Space Shuttle *Challenger* in January 1986 despite warnings that doing so could be unsafe. Key decision makers believed that as a high-performance organization engaged in an important mission, NASA simply could not fail. The results of that attitude are notorious: *Challenger* exploded 73 seconds into its voyage, killing all seven crew members instantly.
3. Does the lack of full agreement between experts absolve Olympic sponsors of blame if the Rio Olympics ended up contributing to the spread of the Zika virus? Would it be ethically correct of the sponsors to say, after the fact, "We didn't know for sure there would be a problem"?

Source: Adapted from Chris MacDonald, "Should Olympic Sponsors Pull Out over the Danger of Zika Virus?" *Canadian Business* [Blog], June 2, 2016, www.canadianbusiness.com/blogs-and-comment/should-olympic-sponsors-pull-out-over-the-danger-of-zika-virus/ (accessed June 5, 2016).

Chapter Objectives

After reading this chapter, you will be able to:

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

Introduction: Making the Case for Business Ethics

Even though years have passed and other scandals have occurred, we still refer to the 2001 Enron Corporation collapse as the landmark event in this century's business ethics news; since that time ethics and values have seldom strayed from the front pages of the press. Recall the 2008 collapse of the investment schemes of former NASDAQ chair Bernie Madoff, the largest fraud of its kind in history with total losses to investors in the billions. When we are referring to scandals such as Canadian publisher Conrad Black's conviction for fraud and obstruction of justice (related to diverting corporate funds for personal use), the list of leaders that have been involved with legal and ethical wrongdoing is, sadly, incredibly long. Reflect for a moment on the businesses that have been involved in scandals or, at least, in flawed decision making since the start of the 21st century: Volkswagen, SNC-Lavalin, Valeant, Siemens, Takata, Enron, Halliburton, AIG, WorldCom, Tyco, Adelphia, Rite Aid, Sunbeam, Waste Management, HealthSouth, Global Crossing, Arthur Andersen, Ernst & Young, ImClone, KPMG, J.P. Morgan, Merrill Lynch, Morgan Stanley, Bear Stearns, Fannie Mae, Countrywide Financial Corp., Citigroup, Salomon Smith Barney, Marsh & McLennan, Credit Suisse, First Boston, Goldman Sachs, AmeriQuest, Deutsche Bank, Bank of America, UBS, Standard & Poor's, Moody's, BP Global, Deep Water Horizon, Johnson & Johnson, Pfizer, Firestone Tire and Rubber Co., and even the New York Stock Exchange. Individuals implicated in ethical scandals include Kenneth Lay, Jeffrey Skilling, Andrew Fastow, Dennis Kozlowski, Bill McGuire, Bob Nardelli, John J. Rigas, Richard M. Scrushy, Martha Stewart, Samuel Waksal, Richard Grasso, Bernard Ebbers, Angelo Mozilo, Kerry Killinger, Stephen Rotella, David Schneider, Vikrim Pandit, and Bernie Madoff. Beyond these well-known scandals, consumer boycotts based on allegations of unethical conduct or alliances have targeted such well-known firms as Nike, McDonald's, Carrefour, Home Depot, Chiquita Brands International, Fisher-Price, Gap, Shell Oil, ExxonMobil, Levi Strauss, Donna Karan, Kmart, Walmart, Nestlé, Nokia, Siemens, BP, H&M, Target, Timberland, Delta Air Lines, and Chick-fil-A.

This chapter will introduce business ethics as a process of responsible decision making. Simply put, the scandals and ruin experienced by all the institutions and every one of the individuals just mentioned were brought about by *ethical failures*. If we do, indeed, reflect on those institutions and individuals, perhaps they should remind us of the often-repeated Santayana warning, "Those who cannot remember the past are condemned to repeat it."[2] This text provides a decision-making model that, we contend, can help individuals understand these failures and avoid future business and personal tragedies. As an introduction to that decision-making model, this chapter reflects on the intersection of ethics and business.

Ethical decision making in business is not at all limited to the type of major corporate decisions with dramatic social consequences listed earlier. At some point, every worker, and certainly everyone in a management role, will be faced with an issue that will require ethical decision making. Not every decision can be covered by economic, legal, or company rules and regulations. More often than not, responsible decision making must rely on the personal values and principles of the individuals involved. Individuals will have to decide for themselves what type of person they want to be.

At other times, decisions will involve significant general policy issues that affect entire organizations, as happened in all the well-known corporate scandals. The managerial role especially involves decision making that establishes organizational precedents and has organizational and social consequences.

Hence, both of these types of situations—the personal and the organizational—are reflected in the title of this book: *Business Ethics: Decision Making for Personal Integrity and Social Responsibility.*

How should we conceive of the relationship between business and market activity, on one hand, and ethical concerns, on the other? This is not a new question, but one that can be found since the very dawn of modern capitalism. Often considered to be the founding father of laissez-faire economics, the 18th-century philosopher Adam Smith is best known for promoting the virtues of self-interest in *The Wealth of Nations.* However, in another of his major works, *The Theory of Moral Sentiments,* Smith suggests that sympathy and benevolence are fundamental human values. The relationship between these two texts has long puzzled scholars and has come to represent the broader issue of the relationship of economic and moral values that is addressed in the study of business ethics. As one commentator writes, "The Adam Smith problem—how to reconcile these two great books—is also the challenge of how to order a society in which competition and ethical sensibility are combined."[3]

As recently as the mid-1990s, articles in such major publications as *The Wall Street Journal, Harvard Business Review,* and *U.S. News and World Report* questioned the legitimacy and value of teaching classes in business ethics. Few disciplines face the type of skepticism that commonly confronted courses in business ethics. Many students believed that the term *business ethics* was a contradiction. Many also viewed ethics as a mixture of sentimentality and personal opinion that would interfere with the efficient functioning of business. After all, who is to identify right and wrong, and, if no law is broken, who will "punish" the "wrongdoers"? However, this approach has left business executives as one of the lowest-ranked professions in terms of trust and honesty, according to a 2011 Gallup poll.[4]

Leaders realize that they can no longer afford this approach in contemporary business. The direct costs of unethical business practice are more visible today than perhaps they have ever been. As discussed earlier, the first decade of the new millennium has been riddled with highly publicized corporate scandals, the effects of which did not escape people of any social or income class. Moreover, we saw the economy take a downward spiral into one of the largest financial crises of the past 80 years, driven significantly by questionable subprime mortgage lending practices at the banks, as well as the widespread trading of risky mortgage-backed securities in the markets. These lending and trading efforts encouraged bad debt to appreciate beyond levels that the market could bear. The inevitable correction caused real estate values in most markets to decline sharply, domestic credit markets to freeze, and the federal government to intervene with a rescue package.

If the key (or not so key) decision makers who contributed to the bubble bursting had acted differently, could these unfortunate consequences have been avoided? It is perhaps enough to point out that it is a bit of a vicious circle. Economic turmoil encourages misconduct; there is a significant bump in observed workplace misconduct during times of economic challenges. Some money-saving strategies deployed by struggling companies, such as compensation/benefit reductions and hiring freezes, have been found to increase misconduct by more than 35 percent.[5] In turn, misconduct based on fraud alone causes an estimated 5 percent loss of annual revenues, equivalent to more than $2.9 trillion of the 2009 gross world product.

Personal retirement accounts, institutional investments like pension funds, government employees' retirement funds, and major insurance companies are heavily invested in corporate stocks and bonds, as well as pooled securities of every size, shape, and order. As a result, the impact of Wall Street failures on Main Street families and businesses become larger and more noticeable by the day.

The questions today are less about *why* or *should* ethics be a part of business; they are about *which* values and principles should guide business decisions and *how* ethics should be integrated within business. (A persuasive case for *why* this shift has occurred can be found in Reading 1-1, "Value Shift," by Lynn Sharp Paine.) Students unfamiliar with the basic concepts and categories of ethics will find themselves as unprepared for careers in business as students who are unfamiliar with accounting and finance. In fact, it is fair to say that students will not be fully prepared, even within fields such as accounting, finance, human resource management, marketing, and management, unless they are familiar with the ethical issues that arise within those specific fields.

Consider the wide range of decisions faced by individuals and teams in the course of carrying out business in the modern economy. Our choices are restricted by law and institutional rules, but only to certain extents. Beyond those limits, we must rely on ethical judgment to reach decisions that fall squarely within the field traditionally described as business-related. Yet, at the same time, our personal ethics also are challenged. While we will return to this tension in Chapter 2, the concept of a personal standard is paramount, and the readings by both MacDonald and Vermaelen examine the potential, for instance, of the MBA Oath as one way to resolve these challenges.

1 OBJECTIVE

To understand the origins of this shift from *whether* ethics or values should play a role in business decisions to the almost frantic search for *how* most effectively (and quickly!) to do it, consider the range of people who were harmed by Bernie Madoff's pyramid investment scheme. The largest security fraud in history, Madoff's unethical behavior led to cash losses of at least $20 billion for his clients. Though much of the media's initial attention focused on the big banks, wealthy hedge fund managers, and Hollywood celebrities defrauded by Madoff, the impact of his crimes was felt far beyond this small circle. More than 100 nonprofit organizations—including the New York Public Library, the Children's Health Fund, and a neurological research center at the Massachusetts Institute of Technology—had invested assets with Madoff's fund and were forced to reduce or eliminate services as a result of the collapse. The charitable foundation founded by Holocaust survivor and Nobel laureate Elie Wiesel was just one of many nonprofits that were wiped out entirely. The scandal led to the financial devastation of pension funds, hospitals, and universities across the globe, as well as to the bankruptcies of several smaller banks. In each case of economic loss, communities of the investing group or individual were negatively affected by the loss, and the families of those affected suffered hardship. Many of the individuals directly involved in Madoff's fund have since suffered criminal and civil punishment, up to and including prison sentences for some. Indeed, it is hard to imagine anyone who was even loosely affiliated with Madoff who was not harmed as a result of the ethical failings there. Multiply that harm by the dozens of other companies implicated in similar scandals to get a better idea of why ethics is no longer dismissed as irrelevant. The consequences of unethical behavior and unethical business institutions are too serious for too many people to be ignored.

This description of the consequences of the Madoff Ponzi scheme demonstrates the significant impact that business decisions can have on a very wide range of people. Madoff's choices dramatically affected the lives of thousands of people: investors, businesses, schools, nonprofit organizations, retirees, and the communities in which these people live. For better or for worse, the decisions that a business makes will affect many more people than just the decision maker. As we will discuss throughout this text, in order to sustain the firm, ethically responsible business decision making must move beyond a narrow concern with stockholders to consider the impact that decisions will have on a wide range of **stakeholders.** In a general sense, a business *stakeholder* will be anyone who affects or is affected by decisions made within the firm, for better or worse. Failure to consider these additional stakeholders will have a detrimental impact on those stakeholders, on stockholders, specifically, and on the firm's long-term sustainability as a whole. This perspective is articulated effectively by Whole Foods Market's "Declaration of Interdependence."

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

> Satisfying all of our stakeholders and achieving our standards is our goal. One of the most important responsibilities of Whole Foods Market's leadership *is to make sure the interests, desires and needs of our various stakeholders are kept in balance.* We recognize that this is a dynamic process. It requires participation and communication by all of our stakeholders. It requires listening compassionately, thinking carefully and acting with integrity. Any conflicts must be mediated and win-win solutions found. Creating and nurturing this community of stakeholders is critical to the long-term success of our company. (Emphasis added.)[6]

Whole Foods has maintained this priority structure over nearly 20 years, during which it has performed extremely well for its shareholders. In fiscal year 2015, the company reported sales of approximately $15 billion and more than 430 stores in the United States, Canada, and the United Kingdom.[7]

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

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

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

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

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

Moreover, given the declining average life expectancy of firms,[8] maintaining an ethical advantage becomes a vital distinction between successful and unsuccessful firms. A firm's ethical reputation can provide a competitive edge in the marketplace with customers, suppliers, and employees. On the positive side, managing ethically can also pay significant dividends in organizational structure and efficiency. Trust, loyalty, commitment, creativity, and initiative are just some of the organizational benefits that are more likely to flourish within ethically stable and credible organizations (see the Reality Check "Why Be Good?"). Research demonstrates that 94 percent of workers consider a firm's ethics critically important in their choice of employers. In fact, 82 percent of employees say they would prefer a position at lower pay in a firm with ethical business practices compared to a higher-paying job at a company with questionable ethics. Further, one-third of U.S. workers have walked off a job on the basis of their ethics.[9] Alternatively, the consumer boycotts of such well-known firms as Nike, McDonald's, Home Depot, Fisher-Price, and Walmart give even the most skeptical business leader reason to pay attention to ethics.

For business students, the need to study ethics should be as clear as the need to study the other subfields of business education. As discussed earlier, without this background, students simply will be unprepared for a career in contemporary business. But even for students who do not anticipate a career in business management or business administration, familiarity with business ethics is just as crucial. After all, it was not only Bernie Madoff who suffered because of his ethical lapses. Our lives as employees, as consumers, and as citizens are affected by decisions made within business institutions; therefore, everyone has good reasons for being concerned with the ethics of those decision makers.

Reality Check *Why Be Good?*

Ethical Systems, a collaboration of academics and business leaders, takes a thoughtful approach to the question of whether ethics is good for business.

Ethical Systems gives the following list of specific ways in which "ethics pays" for corporations:

- A good reputation is valuable.
- Illegal conduct can be extremely costly.
- Good governance pays off financially.

Source: Ethical Systems, www.ethicalsystems.org/content/ethics-pays (accessed April 16, 2016).

Moreover, as leaders and as emerging leaders, we need to explore how to manage the ethical behavior of others so that we can improve their decisions and encourage them to make ethical, or more ethical, decisions. Certainly, unethical behavior continues to occur within organizations today at all levels, and business decision makers—at all levels—must be equipped with the tools, the knowledge, and the skills to confront that behavior and to respond to it effectively. Just imagine the impact in terms of role modeling of this single statement by Prince Bandar Bin Sultan, in connection with accusations that he received secret and personal "commissions" of approximately $240 million each over a 10-year period in connection with a defense contract between the British government and the Saudi arms manufacturer BAE Systems:

> "The way I answer the corruption charges is this. In the last 30 years, . . . we have implemented a development program that was approximately, close to $400 billion worth. You could not have done all of that for less than, let's say, $350 billion. Now, if you tell me that building this whole country and spending $350 billion out of $400 billion, that we had misused or got corrupted with $50 billion, I'll tell you, 'Yes.' But I'll take that any time.
>
> "But more important, who are you to tell me this? I mean, I see every time all the scandals here, or in England, or in Europe. What I'm trying to tell you is, so what? We did not invent corruption. This happened since Adam and Eve. I mean, Adam and Eve were in heaven and they had hanky-panky and they had to go down to earth. So I mean this is—this is human nature. But we are not as bad as you think!"[10]

In that case, former British Prime Minister Tony Blair had originally allowed the fraud investigation to be dropped. He offered the following statement, in an effort to explain his reasons for the decision: "This investigation, if it had gone ahead, would have involved the most serious allegations in investigations being made into the Saudi royal family. My job is to give advice as to whether that is a sensible thing in circumstances where I don't believe the investigation incidentally would have led anywhere except to the complete wreckage of a vital strategic relationship for our country. . . . Quite apart from the fact that we would have lost thousands, thousands of British jobs."[11]

Some observers may look to the choices made in late 2008 and 2009 by American International Group (AIG), the world's largest insurer, as another example of poor role modeling. One can easily see the impact of those decisions on reputation. In September 2008, AIG was on the brink of bankruptcy. There was a realistic fear that if the company went under, the stability of the U.S. markets may have been in serious jeopardy. Over a five-month period, the U.S. government bailed out AIG to the tune of $152.2 billion (funded by U.S. tax dollars) in order to keep the company afloat because AIG arguably was "too big to fail."

While that consequence alone was unfortunate, it certainly was not unethical. However, in decisions that damaged the reputations of many involved, among other criticisms, one month after AIG received the first round of bailout money, its executives headed to California for a weeklong retreat at an extremely luxurious hotel, with the company covering the nearly half a million dollar tab *with the bailout money.* Six months later, these same executives rewarded themselves with bonuses totaling over $100 million. Although President Obama (some say belatedly) criticized the executives for their legally awarded bonuses, many of the bonuses were paid nevertheless because they had been promised through employee contracts for the purposes of "retaining talent" before AIG had received any bailout money.[12]

Although it did not reach a full congressional hearing, the U.S. House of Representatives even prepared a bill that would impose a 90 percent tax on the bonuses of more than $5 million paid to executives by AIG and other companies that were getting assistance from the government. Instead, the House passed the Grayson-Himes Pay for Performance Act in April 2009 "to amend the executive compensation provisions of the Emergency Economic Stabilization Act of 2008 to prohibit unreasonable and excessive compensation and compensation not based on performance standards."[13] This bill would ban future "unreasonable and excessive" compensation at companies receiving federal bailout money. Treasury Secretary Timothy Geithner would have the power to define what constitutes reasonable compensation and to review how companies give their bonuses.

The case for business ethics is clear and persuasive. Business must take ethics into account and integrate ethics into its organizational structure. Students need to study business ethics. But what does this mean? What is *ethics,* and what is the objective of a class in business ethics?

Business Ethics as Ethical Decision Making

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

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

2 OBJECTIVE

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

Yet, according to some observers, ethical theories and the history of ethics are beside the point. These stakeholders, including some businesses looking to hire college graduates, business students, and even some teachers, expect an ethics class to address ethical *behavior,* not just information and knowledge about ethics. After all, what good is an ethics class if it does not help prevent future Madoffs? For our purposes, **ethics** refers not only to an academic discipline, but also to that arena of human life studied by this academic discipline, namely, *how human beings should properly live their lives.* And we believe the tools provided in this book will better equip students to think clearly about such questions. At very least, after taking a course based on this book, you should be better equipped than the average person to think clearly about ethical issues in business, and to offer a reasoned point of view about those issues. Even if an ethics course does not change your capacity to think, we believe that it could stimulate your choices of what to think *about.*

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

But not all forms of influencing behavior raise such concerns. There is a big difference between manipulating someone and persuading someone, between threatening (unethical) and reasoning (more likely ethical). This textbook resolves the tension between knowledge and behavior by emphasizing ethical judgment, ethical deliberation, and ethical decision making. In line with the Aristotelian notion that "we are what we repeatedly do," we agree with those who believe that an ethics class should attempt to produce more ethical *behavior* among the students who enroll. But we believe that the only academically and ethically legitimate way to achieve this objective is through careful and reasoned decision making. Our fundamental assumption is that a process of rational decision making, a process that involves careful thought and deliberation, can and will result in behavior that is more reasonable, accountable, and ethical.

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

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

Business Ethics as Personal Integrity and Social Responsibility

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

Another element of our environment that affects our ethical decision making and behavior involves the influence of social circumstances. An individual may have carefully thought through a situation and decided what is right, and then may be motivated to act accordingly. But the corporate or social context surrounding the individual may create serious barriers to such behavior. As individuals, we need to recognize that our social environment will greatly influence the range of options that are open to us and can significantly influence our behavior. People who are otherwise quite decent can, under the wrong circumstances, engage in unethical behavior while less ethically motivated individuals can, in the right circumstances, do the "right thing." Business leaders, therefore, have a responsibility for the business environment that they create; we shall later refer to this environment as the "corporate culture." The environment can strongly encourage or discourage ethical behavior. Ethical business leadership is precisely this skill: to create the circumstances within which good people are able to do good, and bad people are prevented from doing bad.

3
OBJECTIVE

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

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

How should we live? This fundamental question of ethics can be interpreted in two ways. "We" can mean each one of us individually, or it might mean all of us collectively. In the first sense, this is a question about how I should live my life, how I should act, what I should do, and what kind of person I should be. This meaning of ethics is based on our value structures, defined by our moral systems; and, therefore, it is sometimes referred to as **morality.** It is the aspect of ethics that we refer to by the phrase **"personal integrity."** There will be many times within a business setting where an individual will need to step back and ask: What should I do? How should I act? If morals refer to the underlying values on which our decisions are based, ethics refers to the applications of those morals to the decisions themselves. So, an individual could have a moral value of honesty, which, when applied to her or his decisions, results in a refusal to lie on an expense report. We shall return to this distinction in a moment.

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

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

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

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

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

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