

# Chapter 1

## *Ethical Theory and Business Practice*

### CHAPTER SUMMARY

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

The essays and cases in this book provide an opportunity to discuss these questions by reading and reflecting on influential arguments that have been made on these subjects by leading experts. The goal of this first chapter is to provide a foundation in ethical theory sufficient for reading and critically evaluating the material in the ensuing chapters. The first part of this chapter introduces basic and recurring distinctions, definitions, and issues. The second part examines influential and relevant types of normative ethical theory.

### LEARNING OBJECTIVES

- Students should be able to identify and outline fundamental concepts and issues of ethics related to business.
- Students should be able to outline the major ethical theories as well as the prevailing contemporary trends.
- Students should be able to explain the moral point of view and its relevance to decision making in business.

### VIDEO/DVD TIPS

1. *Ethics: What is Right?* (2004) 50 minutes. Films for the Humanities & Sciences.
2. *Emperors of Avarice: CEOs and Corporate Greed* (2002) 25 minutes. Films for the Humanities & Sciences.

### LECTURE GUIDE AND ASSET CORRELATION

Various discussion prompts have been provided for in-class use. These prompts are developed to assist you in starting open conversation with students about key topics of the chapter. The below outline indicates where these prompts may be most useful/effective in overall student understanding.

#### *Chapter Outline*

##### INTRODUCTION

##### FUNDAMENTAL CONCEPTS AND PROBLEMS

1. Morality and Ethical Theory

2. Morality and Prudence
3. Morality and Law
4. The Rule of Conscience
5. Approaches to the Study of Morality and Ethical Theory
6. Relativism and Objectivity of Belief
7. Moral Disagreements
8. The Problem of Egoism

#### NORMATIVE ETHICAL THEORY

1. Utilitarian Theories
2. Kantian Ethics

#### CONTEMPORARY TRENDS IN ETHICAL THEORY

1. Rights Theories
2. Virtue Ethics
3. Common Morality Theories
4. A Prologue to Theories of Justice

#### The Moral Point of View

### **Articles**

#### **FUNDAMENTAL CONCEPTS AND PROBLEMS**

This section introduces the reader to the basic concepts and problems of ethics or moral philosophy. The purpose of this section is to introduce students to a 2,500 year-old tradition of inquiry and analysis of questions of right and wrong. The problems and concepts identified are those that are commonly considered in introductory ethics classes taught by philosophers. Updated business examples are included throughout this section. The material is written so as to be accessible to students and faculty with no background in philosophy.

- 1) Morality and Ethical Theory
  - a) Distinguishes between morality, defined as the moral customs passed down from generation to generation, and ethical theory or moral philosophy which is defined as systematic reflection on the nature and justification of right action.
- 2) Morality and Prudence (**Discussion Prompt**)
  - a) Even though ethical behavior is often in a person or business's self interest, ethical behavior is not the same as self-interest or prudence.
  - b) Ethics and prudence do not always coincide in business.
- 3) Morality and Law (**Discussion Prompt**)
  - a) The law is not the sole repository of moral standards or values.
  - b) What is legally permissible is not necessarily ethical. So to, what is legally required is not necessarily ethical and illegal activity is not necessarily unethical.
- 4) The Rule of Conscience
  - a) Moral justification requires more than mere appeals to conscience.

- 5) Approaches to the Study of Morality and Ethical Theory
  - a) Descriptive: Factual description and explanation of moral behavior typical of the social sciences.
  - b) Conceptual: The study of major terms in ethics like rights, justice, and virtue.
  - c) Normative: The formulation and defense of basic moral norms and principles.
  
- 6) Relativism and Objectivity of Belief
  - a) Descriptive relativism: the claim that different cultures exhibit different moral norms or standards.
  - b) Ethical relativism: the claim that questions of right and wrong are relative to particular societies and that there are no objective moral standards.
  - c) Apparent disagreements regarding ethical issues are often attributable to different judgments rather than different underlying moral principles. Even when the disagreements reflect differences in principles, this by itself is not a sufficient basis to reject the objectivity of beliefs. Furthermore, relativism is incompatible with core beliefs such as that slavery is wrong no matter what a culture may believe.
  
- 7) Moral Disagreements (*Discussion Prompt*)
  - a) Moral disagreements are genuine and common. In order to resolve moral conflicts it is necessary to make sure one has one's facts right.
  - b) Moral disagreements can sometimes be helpfully clarified by obtaining definitional clarity regarding the concept at issue (e.g., affirmative action).
  - c) Examples and counterexamples can be utilized to shore up different points of view.
  - d) Reasoned analysis of arguments and positions, when done properly and without inappropriate emotion, is often the best means of resolving moral disagreements.
  
- 8) The Problem of Egoism
  - a) Psychological Egoism is the view that everyone always acts in their own perceived self-interest. This is a descriptive or explanatory claim and is thus susceptible to refutation via evidence of altruistic behavior. When egoists are presented with examples of altruistic behavior, such as a mother's devotion to her child or a soldier's devotion to his comrades, they normally retort that such actions are not really altruistic since the mother or soldier gets satisfaction from such actions. By replying in this way the egoist risks making the theory necessarily true.
  - b) Ethical egoism is the view that everyone ought to always act in their own self-interest. This is a normative claim, one that purports to identify the supreme principle of conduct. Since a society in which people follow basic rules such as keeping promises and not injuring others is typically in the self-interest of most people it makes sense to follow such rules, according to the ethical egoist, unless violating such rules is clearly in one's best interest. Here the egoist is recognizing that behavioral rules can help society avoid anarchy of the sort predicted by Hobbes.
  - c) Defenders of egoism often invoke Adam Smith. According to Smith, the pursuit of self-interest tends to promote the overall welfare of society. These utilitarian results, if used to justify egoistic behavior, tend to support utilitarianism and not ethical egoism. Smith's defense of capitalism assumes not only the prudential pursuit of self-interest, but also the benevolent actions of individuals.

## **NORMATIVE ETHICAL THEORY**

This section introduces the reader to the main theoretical options regarding the ethical foundations of business. The section concludes by highlighting the commonalities among these theories.

- 1) Utilitarian Theories (**Discussion Prompt**)
  - a. Hold that the moral worth of actions or practices is determined by the consequences of the actions or practices. The view is most commonly associated with the work of Jeremy Bentham and John Stuart Mill. Mill defended the principle of utility that holds that actions are right or wrong insofar as they promote happiness or pain. He argued that morality taps a natural human tendency to be sensitive to the needs of others.
  - a) Utilitarianism is committed to the maximization of overall welfare in society.
  - b) Bentham and Mill were hedonists who believed that only pleasure or happiness is intrinsically good. Utilitarians who believe in multiple intrinsically valuable goods are known as pluralists.
  - c) Preference utilitarianism is the view that individual preference satisfaction should be maximized. It is an alternative to hedonist and pluralist utilitarianism and is the view held by most contemporary utilitarians. A problem with this view is that some preferences result in harm to others. If one's preferences are limited so as not to harm others, it is not clear that the resulting theory would rely entirely on preferences.
  - d) Utilitarians are committed to mechanisms for measuring and comparing goods.
  - e) Independent of what conception of the good utilitarians hold (hedonism, pluralism, or preferences) they are conventionally divided into two types: act utilitarianism and rule utilitarianism. Act utilitarians hold that one should always *act* so as to promote the general welfare whereas rule utilitarians argue that one should always follow *rules* that tend to promote the general welfare (even if following that rule sometimes results in disutility) (**Discussion Prompt**).
  - f) Two criticisms of utilitarianism: First, it is argued that utilitarianism cannot appropriately measure different preference units. For example, it is argued that no single measure can be used to compare the value of new jobs, increased oil supply, and wildlife preservation in determining whether or not to drill in pristine wilderness. Second, it is argued that utilitarianism cannot accommodate important moral considerations such as individual rights or justice (**Discussion Prompt**).
- 2) Kantian Ethics (**Discussion Prompt**)
  - a) The idea of respect for persons is a central tenant of Kantian moral philosophy. Kantians argue that persons, because they are self-governing beings, have unique dignity. Persons should not be treated as if they have mere conditional or instrumental value like capital. This does not mean that persons cannot be used by employers as a means. All employers use employees in this way. The point is that employees cannot be used as a means *only*, as if they were disposable tools of production. Kantians argue that employers must ensure that workers can live a life compatible with basic human dignity, and this entails certain positive obligations regarding wages, working hours, and working conditions.
  - b) Kantians emphasize the importance of motives to ethics. Kantians argue that for an action to be properly regarded as ethical, the right actions must be done for the right reasons. In particular, all praiseworthy right actions must be done with a recognition that one's duty, or obligations, requires that the action be performed. Right actions performed merely on the basis of self-interest or sentiment are not morally praiseworthy actions because they fail to originate in

- rational reflection on what is morally required of self-governing beings.
- c) Central to Kantian ethics is the idea of universalizability. The idea here is that in order to be regarded as ethically permissible an action must be capable of being made a universal rule such that everyone could perform the action without contradiction. For example, breaking promises is impermissible because the very institution of promise keeping would be undermined by universal promise breaking. No one would trust that a handshake seals a deal. (Note: Kant distinguishes between conceptual and pragmatic contradictions. The former, but not the latter are discussed in this introductory chapter.)
  - d) Critics charge that Kantian ethics pays too little attention to particular, as opposed to universal, duties such as those appropriate in relationships. In response Kantians argue that impartiality plays a central role in moral theorizing.
- 3) Contemporary Challenges to the Dominant Theories
- While Kantian ethics and utilitarianism have been the most influential ethical theories in the western tradition, three popular replacements, or supplements to these theories have received considerable attention in recent years. These are described below (**Discussion Prompt**).
- a. Rights Theories – Rights based theories hold that rights form the basis of obligations because they best express the purpose of morality, which is the securing of liberties or other benefits from rights holders.
    - i. A negative right is a valid claim to liberty, and a negative obligation requires that we not interfere with the obligations of others. A positive right is a valid claim to a good or service and positive obligation requires that a person, organization, or state provide such goods or services.
    - ii. Rights talk is greeted with skepticism by some based on a proliferation of rights.
  - b. Virtue Ethics – Focuses on decision making by persons of good character. Virtue is cultivated by habitual training and emphasizes the importance of a correct motivational structure.
  - c. Common-Morality Theories – Such theories hold that there is a common morality shared by all people seriously committed to a shared moral life as a result of our shared communal life.
    - i. Common morality is said to include standards of action such as “Don’t kill” and “Tell the truth” and moral character traits such as honesty and integrity.
    - ii. This theory is grounded in the idea that morality is intended to preserve social order. The common norms that are observed are those that have been proven over time to preserve social order.
    - iii. The general principles of common morality can reasonably be applied in different, consistent ways in different cultures.
    - iv. Critics of common morality argue that people from different cultures disagree about what constitutes common morality. In response, it is argued that all cultures share moral prohibitions against lying, breaking promises, stealing, and the like.
  - d. A Prologue to Theories of Justice: Chapter 10 of this book is devoted to theories of justice in relation to business. This section of Chapter 1 serves as a prologue to that section.
    - i. Just *procedures* in organizations and society are distinct for just *results*.
    - ii. Theories of global justice attempt to adjudicate disputes between the economically advantaged and disadvantaged.

- e. The Moral Point of View: This section is crucial for students. It should help them understand the overall goals of this chapter and synthesize the main themes of this chapter (**Discussion Prompt**)
  - i. Moral philosophy is a 2,500-year-old tradition that must be taken seriously by students of business ethics.
  - ii. Several theories – or elements of theories – are compatible.
  - iii. Each of the theories in this chapter includes certain common features that may be characterized as the correct attitude to take in ethics. This attitude is rational, universal, and impartial. Collectively these features constitute the moral point of view.
  - iv. In summary, a business that is guided by purely economic considerations is an unethical or amoral organization.

## **Cases**

### *The Training Program*

Rajiv, a recent graduate from an American university, is faced with an ethical dilemma. A start-up software company has promised to sponsor his work visa but has instructed him and the other international students to fabricate work experience on their resumes in order to gain legitimacy and subsequently to get hired by clients. Rajiv must either inflate his resume or risk being forced to return to his home country.

### *Should Company Policy Apply to All?*

The manager of a department store is having problems equally enforcing the company's zero tolerance policy for personal phone use. The star sales person in the store has been allowed to use her phone for personal use because of her extraordinary performance. Meanwhile another employee, albeit a rather average employee, was harshly reprimanded by the manager for his personal phone use on the job. The manager contemplates whether he is doing the right thing by uniformly enforcing policies.

### *Should Everything Be for Sale? (Discussion Prompt)*

Three members of an entrepreneurship club at a university have come up with ideas to make quick money. The first idea is to grow and to sell fake pot. The second is become an intermediary for people in developing nations willing to sell their organs. The third is to start an escort service targeting financially distressed college women. Each of the three have clear moral dilemmas.

## **DISCUSSION PROMPTS**

- 1) Which of the ethical theories discussed in this chapter are you most sympathetic to? Why? Which of the ethical theories are you least sympathetic to? Why?
- 2) It is sometimes said that individuals can only be taught the difference between right and wrong while growing up, and that once a person reaches adulthood their moral character is set for life. Why do you suppose people maintain this view? Do you agree or disagree with this view? Why?

- 3) Identify five specific ethical issues that today's ethical managers must confront. Which of the ethical perspectives from this chapter seems best suited to resolve such ethical issues? Why?
- 4) What is the moral point of view and why is it important? Does it make sense to say that business people must operate from the perspective of the moral point of view? Why, or why not?
- 5) Thinking about "act" vs. "rule" utilitarianism, how might society's institutions be constructed as to encourage "rule" utilitarianism more than "act" utilitarianism? Why?
- 6) What are the main features of Kantian ethics? What are the main features of utilitarian ethics? Which view do you find most persuasive? Why?
- 7) Analyze each of the business endeavors explained in the case "Should Everything Be for Sale?" from the different moral theoretical perspectives. Do you draw any significant different conclusions to the issues posed in each business endeavor with the different theories?
- 8) Think about today's national political discourse. How seriously do politicians and the media consider the four methods of resolving moral disagreements as explained in the chapter? If not taken seriously, how could today's political climate benefit from such considerations?
- 9) Morality sometimes finds itself at odds with notions of business prudence and with the law. Explain how ethics and prudence as well as ethics and the law do not always coincide in business.
- 10) Explain the critiques of rights theories, virtue theories, and common morality theories to examine how one might refute the principles of each ethical theory.

## MYSEARCHLAB CONNECTIONS

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### STUDY AND REVIEW THESE KEY TERMS AND CONCEPTS

Read

- Morality
- Ethical theory
- Moral philosophy
- Justification
- Descriptive approach
- Conceptual approach
- Normative (prescriptive) approach
- Ultimate moral standards
- Relativism of judgments
- Relativism of standards
- Egoism
- Utilitarianism
- Kantianism