

BUSINESS ETHICS: OVERVIEW OF THE ETHICAL DECISION MAKING PROCESS

Presentation for

Beta Alpha Psi, Mu Zeta Chapter

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Why Study Business Ethics?

- First, be sure you know your definitions:
- **Business:** all relationships and activities that involve trading of goods and services for profit; production, distributing, marketing, selling goods and services
- **Ethics:** how we *should* live, prescribed norms for good behavior (note the differences between what is legal and what is ethical)

Three different branches of ethical inquiry:

- **Metaethics:** looking at the foundations of all ethical behavior, comparing different formal theoretical ethical theories
- **Normative Ethics:** understanding the norms, principles, and “tests” that determine what is acceptable within one theory
- **Applied Ethics:** applying a theory to a particular example, situation, or case

Done well, Business Ethics involves some of all three of these.

Issues in each branch:

- Metaethics: “Kant locates the moral worth of an action in the intention, while Mill locates the moral worth in the consequences of the action. Which is the stronger theory?”
- Normative Ethics: “How would a Kantian address whether or not we should accept gifts from business associates; can we universalize a maxim that says ‘always accept gifts’?”
- Applied Ethics: “It concerns us that you accepted this expensive gift from one of our suppliers, Jean, because it might influence whether you can objectively evaluate that supplier’s work for us in the future.”

Internal vs. External

- **Internal** ethical issues happen within one company or organization, treatment of employees by their employers would be one example
- **External** ethical issues happen between companies/organizations, communities, consumers, customers, the environment, etc.

Business Ethics has value for you because:

- You will be involved in business in one way or another, as a professional or as a consumer
- Business Ethics courses give you tools to understand the complex ethical decisions that relate to business
- Helps you to construct and refine your own framework for your own overall moral point of view

Self-Interest and Ethics

- A quote by Adam Smith, Scottish moral philosopher and a pioneer of political economy (and economics)
- 1723-1790



Motivation for exchange and the flourishing of business

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” –Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776

What do you think?

- Is business about profit at the expense of rules?
- Can a selfish person thrive, or do they need to be able to cooperate and collaborate?
- When Amartya Sen says that “business ethics makes economic sense” he is arguing in favor of business ethics, that business ethics can be in the interest of successful business.
- Article from The Atlantic about whether Smith really believed the invisible hand would justify selfishness or deregulation:

<http://www.theatlantic.com/past/docs/issues/98mar/misquote.htm>

Three major ethical theories:

- Immanuel Kant and “duty-based” or “intentions-based” deontological ethics, responsibility and duty
- Aristotle and virtue ethics (courage)
- Bentham, Mill, Rachels and utilitarian “consequence-based” teleological ethics (greater good)
- *Aristotle, Kant, and Mill are traditionally referred to as the three major ethical theorists.*

Greek terms

- Each ethical theory is known by specific terms that are Greek roots:
- **Kant**: Duty-based ethics, ***deon***, deontological ethics
- **Aristotle**: Virtue or Excellence-based ethics, ***areté***, aretaic ethics
- **Mill**: Consequence or ends-based ethics, ***telos***, teleological ethics

Immanuel Kant

1724-1804

**Königsberg, Prussia (now
Germany)**

**Pietist family (sort of like a
German puritan)**

**Actions are moral if done purely
from duty.**

**Maxim test – statement of
intended action should be
universal, commanded of
everyone in similar situations**



The only thing that is purely good, without qualification, is a “Good Will.”

- The good will is like an exemplary person who always does what is morally right, simply out of good intentions alone, with no concern for their own benefit or happiness.
- A group of Good Wills together is a “Kingdom of Ends” – comparable to the Kingdom of Heaven on Earth.



Equality

- Everyone is equally able to use reason to do the “maxim test”, to see if their maxim should be a universal law, a **“Categorical Imperative”**
- This is an extension of his epistemology, in which everyone is described as having the same powers of reason, sensory intuitions, and categories of understanding.

Impartiality

- No special benefits for your friends or loved ones:
- Your friend begs you to let him hide in your house, you aren't sure why. An angry mob comes to your door to murder your friend, and asks you if he is there.
- What should you do?



Actions are always to be performed for the sake of duty alone

- No “mixed motivations”
- No “personal benefit”
- Imagine two shopkeepers, one who gives correct change because it is morally imperative even if it makes them a little grumpy, the other because he wants to be liked. Which one is more “morally praiseworthy” for Kant?



Heather Salazar's Case of Selling Supplements

- If a Kantian knows that an herbal diet supplement is ineffective or harmful, can they universalize the maxim that says "Sell ineffective or harmful supplements"?
- Is selling ineffective or harmful goods something that could be described as self-seeking or biased?

Autonomy

- Kant is also very interested in preserving the individual decision-maker's reason and autonomy. If you make the negative information about the supplement available, is it permissible to allow customers to foolishly decide to buy it?
- Kant says we must pay attention to our intentions for acting, rather than what the results will be. So intending to donate to UNICEF as a charitable act is morally good, even if something goes wrong and the money never reaches those who need it. Good intentions matter more than bad results for Kant.
- *Is it alright for businesses to sell substandard items this way too (without regard for the bad results)?*

Three Formulations of the Categorical Imperative



Königsberg, with Kant's house in the front/left and the castle in the background

Always act so that the maxim of your action is a universal law; and a universal law of nature.

Always treat humanity, in the form of yourself or another person, as an end in itself, never merely as a means.

These are also known as:

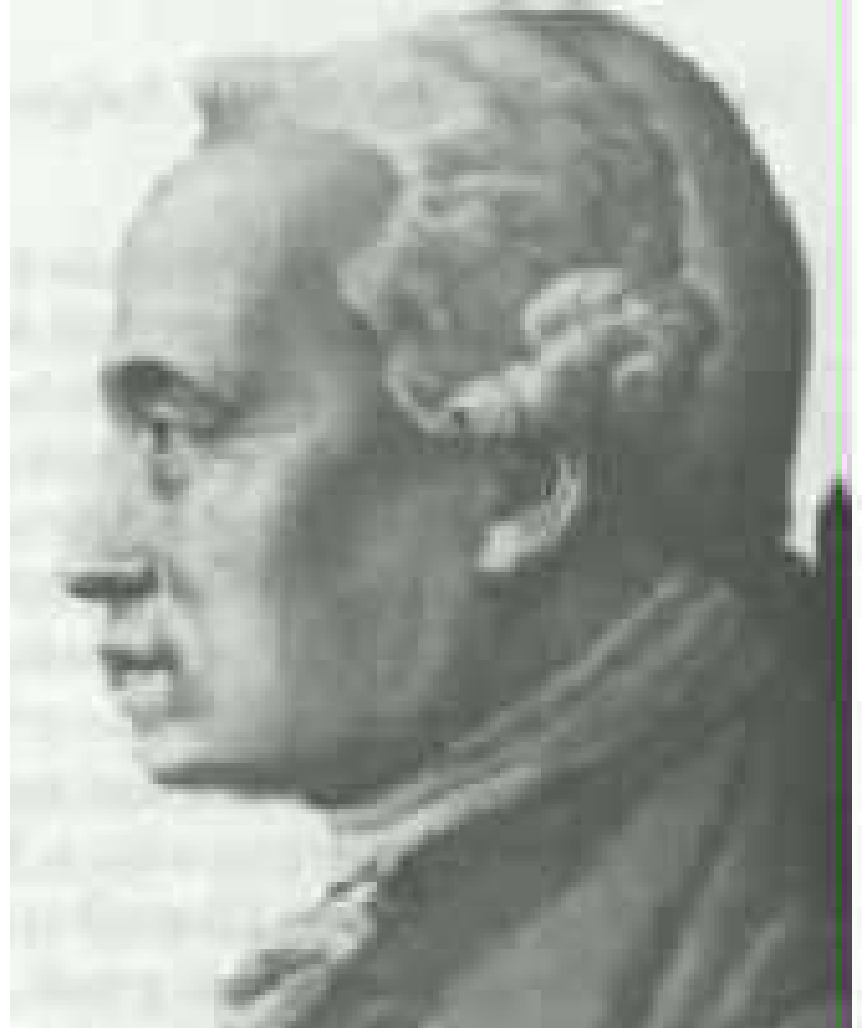
- The Formula of Universal Law
Always act so that the maxim of your action is a universal law.
- (The moral choice is the one that everyone should have to do in the same situation, the maxim that can be universalized.)
- The Formula of Humanity
- Always treat humanity, in the form of yourself or another person, as an end in itself, never merely as a means.
- (Don't use humanity or let yourself be used.)

Kantian Duties

Examples:

- tell the truth
- develop talents
- preserve life
- be impartial
- act in beneficence
- act in non-maleficence

**Problems arise when
duties conflict!**



Conflicts of duties

- Mother wants to see you earn a PhD, you are in graduate school. She is diagnosed with cancer. You feel you have a duty to leave school, go home and take care of her. She says no, don't you dare leave school, I would be upset if you left school. What is the right duty to follow?
- You are a mayor of a small town. A major energy company wants to bring a lucrative contract to your town, but will only do so if you allow an incinerator to be built within town limits, next to a school. What different duties do you have? What duty should you choose to follow?

Positive and negative freedom:

- We are **positively free** since we derive the moral law, our duties and categorical imperatives, *for ourselves* (using rationality) but **negatively free** because once we derive the moral law we are bound by it (and must obey it)
- Kant is basically putting a check and balance on our self-interestedness. He makes us ask whether our chosen actions are out of good senses of duty and good intention, or if they are mixed with too much personal preference, bias, selfishness.

Criticisms of Kant?

- Some argue that Kant is a “product of his time and place,” limited in his thinking by the biases of his historical and social life.
- He never left Königsberg, even though he did interact with people at the port, in shipping and trade.
- Some argue Kant would be considered biased today, because in other writings (his Anthropology) he gives the impression that the only real moral agents are European men who are wealthy enough to own their own property, he writes in a belittling manner about women, and he described other societies as less evolved than Europeans.



HOW DOES BUSINESS ETHICS APPLY KANTIAN THEORY TO CASES?

- Smith, Jeffrey, and Wim Dubbink.
"Understanding The Role Of Moral Principles In Business Ethics: A Kantian Perspective."
Business Ethics Quarterly 21.2 (2011): 205-231.

- Ohreen, David, and Roger Petry.
"Imperfect Duties And Corporate Philanthropy: A Kantian Approach."
Journal Of Business Ethics 106.3 (2012): 367-381.

These are just two examples of peer-reviewed journal publications that combine the ethical theory of Immanuel Kant with particular situations, cases, and issues. More are available using the Galileo link on the university library homepage. If you are off campus, use the Anywhere Access, password "poet"

Utilitarianism

The Principle of Utility:

The moral worth of an action resides in its consequences. Right moral actions bring about the best consequences for the greatest number of people.

Utility, or “the best consequences,” can be defined in many ways:

- Economic good**
- Pleasure, rather than pain**
- Happiness**
- Security**

Jeremy Bentham



Auto icon of Jeremy Bentham

- 1748-1832
- London, England
- Acts are morally right if they maximize pleasure for the greatest number, which can be measured in “hedons”
- “Hedonic calculus” should be used for every act
- Necessitates some self-sacrifice

John Stuart Mill



- **1806-1873**
- **London, England**
- **Refines Bentham**
- **Moral worth of acts still lies in their consequences**
- **Uses general rules that bring about utility, rather than choosing by each action**
- **Quality of pleasures matters as much as quantity of pleasures**

James Rachels



- 1941-2003, from Columbus, Georgia
- University of Alabama at Birmingham professor
- Critiques utilitarianism from inside
- Refines utilitarianism
- Self-sacrifice issue shows limits of “lifeboat ethics”
- Need for specific concepts that will aid utility in the long-term: Justice, and Rights
- *Examples:*
 - *The “guilty” drifter between two towns*
 - *Chinook police evidence photos case*

Questions:

- What are the various definitions of “happiness” that a utilitarian might use?
- How does a corporation advertise itself as:
 - Increasing pleasure, decreasing pain
 - Providing a means to happiness
 - Providing higher qualities of happiness
 - Serving a greater good
 - Serving the greatest good for the greatest number of people

Corporate Mission Statements

- VSU: Since 1913, Valdosta State University has been a major provider of educational services for South Georgia. The beauty and consistency of its Spanish Mission style of architecture are indicative of its dedication to serving the region's heritage while developing programs and services to enhance its future. Within the context of the University System's mission and vision, Valdosta State University possesses the core characteristics of a regional university.

http://www.valdosta.edu/sra/documents/VSU_Mission.pdf

Walmart

Wal-Mart's advertised mission statement and its advertising slogan are the same:

"We save people money so they can live better."

Apple

Apple designs Macs, the best personal computers in the world, along with OS X, iLife, iWork and professional software. Apple leads the digital music revolution with its iPods and iTunes online store. Apple has reinvented the mobile phone with its revolutionary iPhone and App Store, and is defining the future of mobile media and computing devices with iPad.

Veolia ES

The mission of the Veolia ES - Separations Division is to provide sludge management and tank cleaning services in a Total Quality manner; thus setting the standard of excellence in our industry. We will continuously strive to exceed the expectations of our customers, our people, our shareholders, and applicable regulators, while constantly improving our environment.

We will remain innovative and aggressively utilize the vast resources throughout the Veolia family of Companies to achieve our goals and objectives. We will remain focused on our business and be totally committed to work smarter and harder than our competition. We will be proud of the valuable service we provide and the success we realize as a TEAM with our customers.

Clear Channel Media and Entertainment

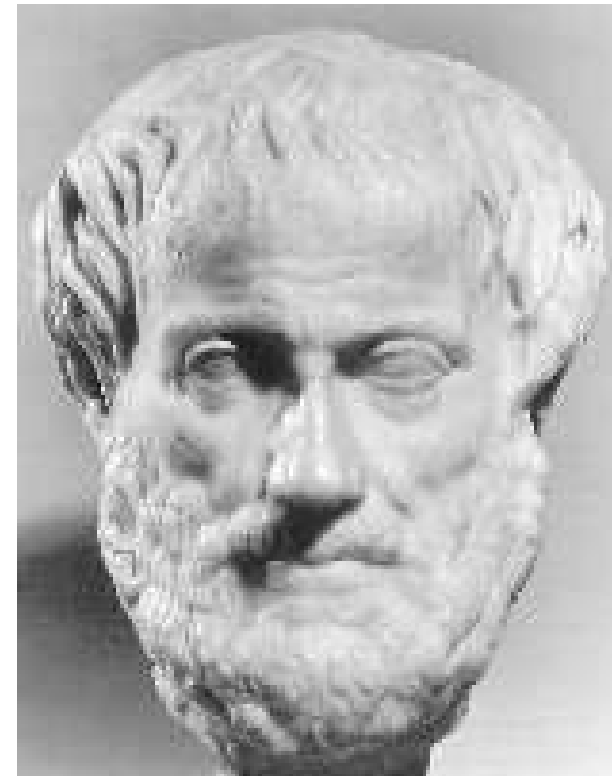
- “To provide outstanding entertainment and information products and services to our communities and effective solutions to advertisers.”
- <http://www.clearchannel.com/MediaAndEntertainment/>

Aristotle:

Moral education: seek examples of good moral behavior and following them

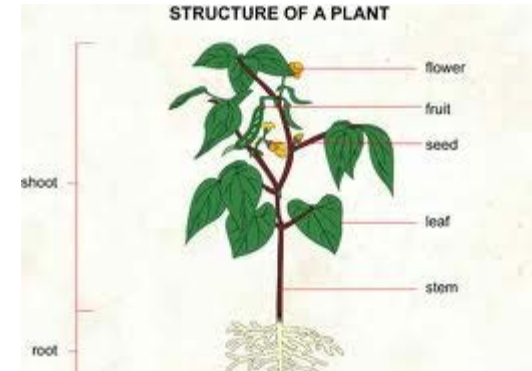
Virtue is acting in the right way at the right time in the right situation

Practice the moral virtues, like courage, compassion, altruism, and temperance



Three types of souls in humans:

- Vegetative
- Appetitive
- Rational
- Each soul has virtues and excellences that go with it: moral virtues and intellectual virtues. Humans use reason, the rational soul, to control the other two souls like a charioteer with two horses.



The Golden Mean Test

Aristotle says that to be morally educated, one must practice what the virtuous person would do. The way to do this is to seek **The Golden Mean**. Imagine a horizontal line, with each end an extreme “**vice**”, and the middle a “**virtue**.” In the case of the virtue “courage”, the vices are “cowardice” (too little courage) and “foolhardiness” (too much courage.) The right amount of courage is in the middle, depending on circumstances (for example, different amounts of courage are needed for fighting in battle, or for surviving a convenience store hold up.)

How might this relate to *honesty, charity, drinking?*

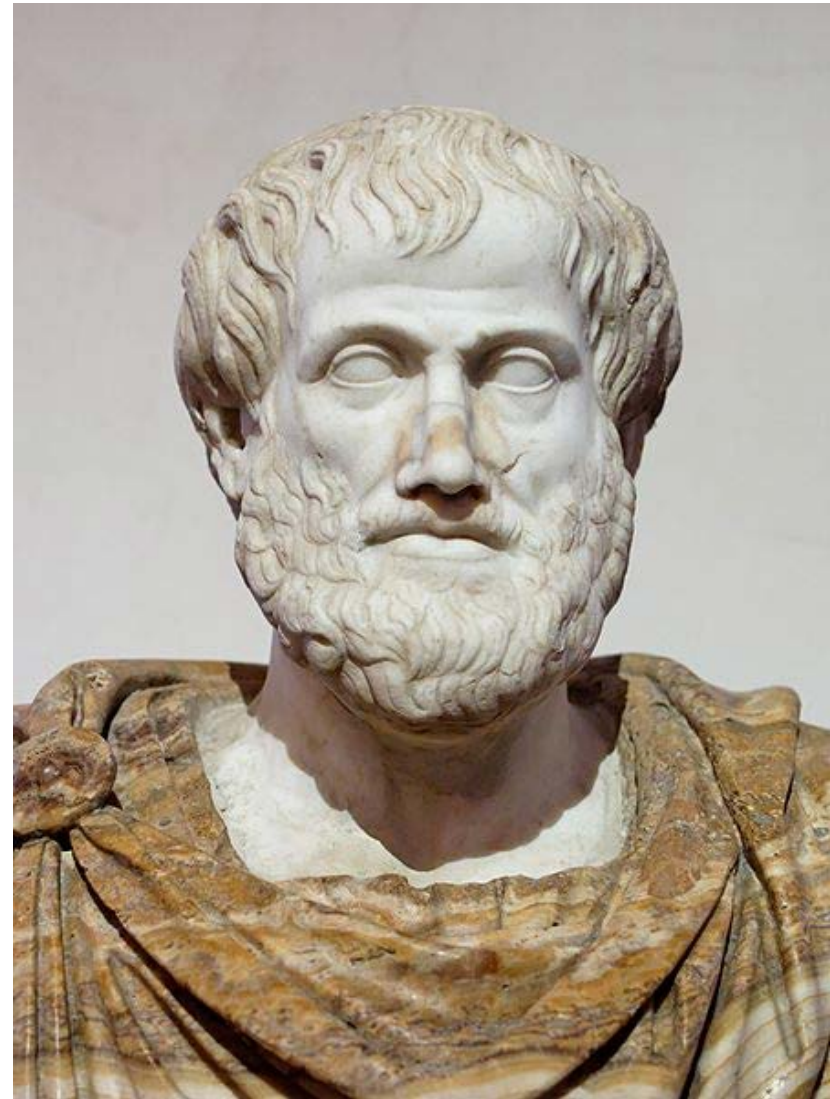
X-----X-----X-----X

Eudaimonea

- Someone who lives life in a happy way (meaning a competent, even-mannered, successful way) is said to be ***eudaimon***
- Note that this state of being isn't the same as giddy happiness or hedonism
- Reason-governed activity
- Traits of character
- Tending to choose the mean

Life in the *polis*

- Aristotle believed that everyone, as they matured, should take on responsibility for political life, life in government, life in the *polis* (the city-state)
- How might this relate to corporations and ethical considerations in dealing with the public?
- How does this relate to corporate donations to candidates for office, corporate personhood?



The paternalistic state

- Aristotle's theory is based on the importance of learning good ethics
- If an individual citizen cannot learn good ethics, the city-state has the right and the responsibility to make them learn
- This justifies the creation of “paternalistic laws”, laws that treat individuals like children, the state like a parent
- The moral health of a city, state, country is the moral health of its individual people “writ large”.

Examples of paternalistic laws

- Seat belt laws
- Blue laws
- Tattoo/Piercing laws
- Drug laws
- Sexual behavior laws
- Entertainment laws, FCC regulations
- FDA regulation of new medical treatments
- Euthanasia, physician assisted suicide
- Pharmacists and dispensing birth control pills vs. Viagra/Cialis



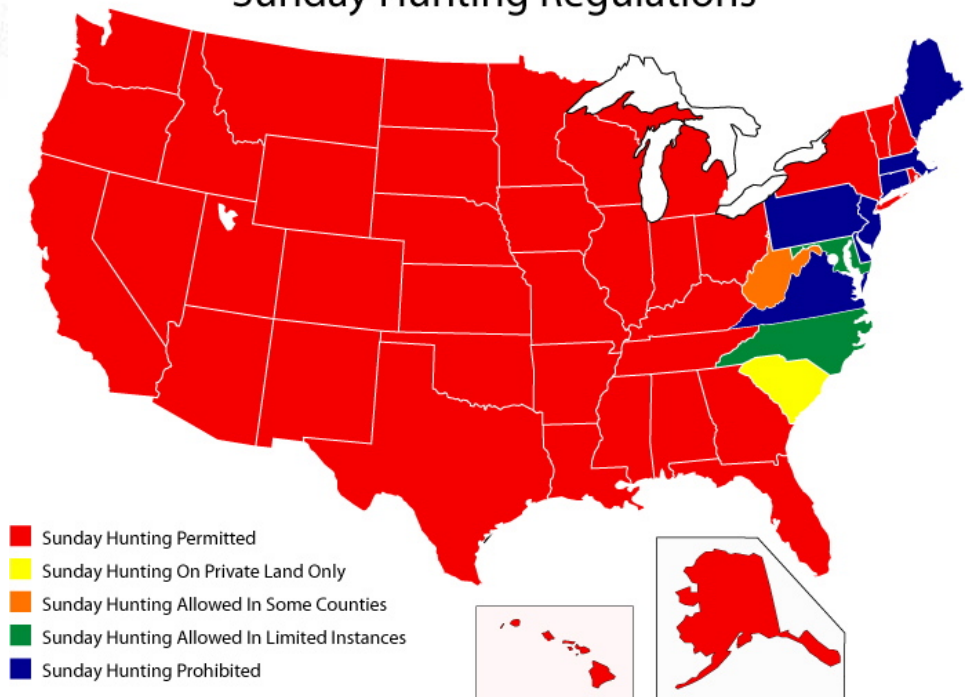


States that do not ban over-the-counter liquor sales on Sunday

States that currently ban liquor sales on Sunday and are not considering repealing the laws

States that ban liquor sales on Sunday but are considering repealing the laws

Sunday Hunting Regulations



Sunday Hunting Permitted

Sunday Hunting On Private Land Only

Sunday Hunting Allowed In Some Counties

Sunday Hunting Allowed In Limited Instances

Sunday Hunting Prohibited

Applying Virtue Ethics to the Business Context:

- Identify moral significance of different roles
- Function of corporate executives is to run the company, but, note that this may not necessarily mean turning as large a profit as possible
- Social interaction required in business settings requires cultivating trusting and mutually beneficial relationships



Oaths and Codes

- After the recent economic crisis, a number of countries in the European Union recommended that employees of banks should have to take an Oath
- Similar to the Hippocratic Oath taken by doctors
- See articles on the issue like:
- <http://www.presseurop.eu/en/content/news-brief/2770161-will-bankers-have-take-oath>
- Will asking bankers to take an oath change behavior?
- What if the banking crisis is actually related to a broader set of bank policies, or widespread deregulation, or the focus on derivatives?
- A recent text by George DeMartino:

Quote from DeMartino:

“With few exceptions, the profession has held the view that its members are committed to social progress; and that in their work economists face no pressing ethical quandaries of the sort that would justify an expenditure of intellectual resources on professional ethics.

This self-perception by the profession is half right and half wrong. Economists as a rule are driven by the imperative not just to understand the world, but to improve it. It is a wonderful irony, in fact, that a profession that portrays human nature as largely self-interested is populated for the most part by other-regarding actors who want to serve the public good. But the profession has made an extraordinary mistake in failing to appreciate that well-meaning economists face daunting ethical challenges in their work.”



The Economist's Oath

On the Need for and Content of
Professional Economic Ethics

George F. DeMartino

Will bankers have to take the oath?

27 September 2012 [pressurop](#) NRC Handelsblad

A proposed bill to make bankers in the Netherlands subject to a disciplinary council along the lines of the ones established for doctors and lawyers is causing “great concern among bankers”, [remarks NRC Handelsblad](#). The bill will be put to outgoing Minister of Finance, Jan Kees de Jager, who declared on 24 September that he is considering replacing the current discretionary oath with an obligatory oath backed by a disciplinary council with the power to impose sanctions in the event of violations. Interviewed by the newspaper, legal expert Edgar du Perron argues that the bill could help limit shady dealing –

“It would enable banking staff to stand up to their superiors [...] they could say: I refuse to sell this product, because it could cause me [disciplinary] problems.”

However, Du Perron also warns that the measure in itself won't be enough to prevent a further crisis –

“Self-regulation within the profession may be like allowing butchers to carry out checks on their own meat. What's more, the disciplinary council rules will be difficult to apply, notably with regard to bankers whose activities could endanger the entire financial system [...] like Jérôme Kerviel at Société Générale. Who are their customers? Who will file a complaint with the disciplinary council?”

In its editorial, the daily describes the proposal as “logical”, while expressing some reservations about “the definition of the term ‘banker’”. It adds –

“The acceptance of risk has without a doubt provided the basis for our current prosperity. It would be better to prevent the consequences of these risks from impacting society instead of forcing staff in the [banking] sector to go along with a drive for good behaviour. A clear and strictly observed distinction between retail and investment banks is still the best solution.”

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Ethics in Accounting

Ethical Issues in Advanced Accounting

Scope of Chapter

Ethics—right conduct—has been a subject of discussion for centuries. For example:

In *Nicomachean Ethics*, Book II, Aristotle (384–322 BC) wrote:

[I]t is no easy task to be good. . . . wherefore, goodness is both rare and laudable and noble.

In *Meditations*, Books III and VII, Marcus Aurelius (121–180 AD) declared:

A man then must stand erect, not kept erect by others. . . . Be thou erect or be made erect.

William Shakespeare (1564–1616) provided the following speeches in two of his plays:

Iago. Good name in man and woman, dear my lord,
Is the immediate jewel of their souls;
Who steals my purse steals trash; 'tis something, nothing;
'Twas mine, 'tis his, and has been slave to thousands;
But he that filches from me my good name
Robs me of that which not enriches him
And makes me poor indeed.
(*Othello*, 3.3. 155–160)

Mowbray. The purest treasure mortal times afford
Is spotless reputation: . . .
Mine honour is my life; both grow in one;
Take honour from me, and my life is done. . . .
(*The Tragedy of King Richard II*, 1.1. 177–183)

Recent highly publicized accounting scandals have made it clear that ethical conduct of accountants has not met the standards inherent in the foregoing quotations. In the article “Scandal Scorecard,” *The Wall Street Journal* described 12 egregious accounting frauds involving publicly owned business enterprises; many of the frauds involved the chief financial officer, controller, chief accounting officer, and other accountants of the enterprises.¹ One outcome of those and other scandals was the enactment of the federal Sarbanes-Oxley Act of 2002 (SOX), which authorized the establishment of a Public Company Accounting Oversight Board to regulate the conduct of accountants both in public practice and in publicly owned business enterprises.

The vocabulary of accounting now includes the following terms:

Cute accounting to describe stretching the *form* of accounting standards to the limit, regardless of the *substance* of the underlying business transactions or events

Cooking the books to indicate fraudulent financial reporting

¹ “Scandal Scorecard,” *The Wall Street Journal*, October 3, 2003, p. B1.

Discussion:

- Which ethical theory might justify family leave policies for mothers and fathers?
- Which ethical theory might justify business practices that are potentially harmful to the environment, if they benefit a larger number of people?
- Which ethical theory might argue against giving promotions to friends and family members?
- Which ethical theory argues in a clear way about conflict of interest policies?
- Which ethical theory do you find most appealing?