Chapter 1

Ethics and Business

In business the handshake is an expression of trust, and ethical behavior is the foundation of trust.

Learning Objectives

- **1.1** Analyze the basic nature of business ethics
- **1.2** Emphasize the importance of moral reasoning and moral decision-making in business ethics
- **1.3** Examine ethical issues arising from globalization and international business connections and practices
- **1.4** Explain the deep foundations and structure of moral reasoning
- **1.5** Assess the factors that define and refine the concept of moral responsibility

Business ethics is applied ethics. It is the application of our understanding of what is good and right to that assortment of institutions, technologies, transactions, activities, and pursuits that we call business. A discussion of business ethics must begin by providing a framework of basic principles for understanding what is meant by the terms *good* and *right*; only then can one proceed to profitably discuss the implications these have for our business world. This chapter provides such a framework. This chapter introduces you to some methods of moral reasoning and some of the obstacles that can get in the way of thinking clearly about ethical issues. We begin by discussing the nature of business ethics and some of the issues it raises and continue by examining moral reasoning, moral decision making, and moral responsibility.

1.1: The Nature of Business Ethics

OBJECTIVE: Analyze the basic nature of business ethics

The best way to introduce a discussion of business ethics is by looking at how real companies have—or have not—incorporated ethics into operations. Consider how Merck & Co., Inc., a U.S. drug company, dealt with the issue of river blindness.

1.1.1: Merck & Co., Inc.

River blindness, or *onchocerciasis*, is a debilitating parasitic disease. It affects about 17 million impoverished people living in remote villages along the banks of rivers in tropical regions of Africa and Latin America. The disease is endemic in 30 African countries, 6 Latin American countries, and Yemen. River blindness is caused by a tiny parasitic worm that is passed from person to person by the bite of the black fly, which breeds in fast-flowing river waters. The tiny worms burrow under a person's skin, where they grow as long as 2 feet curled up in colonies inside ugly round nodules half an inch to an inch in diameter. Male worms move between the colonies to mate with the females. After mating, the female worms each day release thousands of microscopic offspring called *microfilariae*. These tiny worms wriggle their way throughout the body moving beneath the skin, discoloring it as they migrate. The worms cause lesions on the skin and such intense itching that victims sometimes commit suicide. Eventually, the *microfilariae* invade the eyes and blind the victim. Toward the end of the twentieth century, in some West African villages, the parasite had blinded more than 60 percent of adults older than 55. The World Health Organization (WHO) reported that the disease had blinded 270,000 people and left another 800,000 with impaired vision. It is estimated that worldwide more than 100 million people were at risk of infection and 37 million people had been infected.

Pesticides no longer stop the black fly because it has developed immunity to them. Moreover, until the events described below, the only drugs available to treat the parasite in humans were impractical for the destitute victims who lived in isolated rural villages. The drugs were expensive, had severe side effects, and required lengthy hospital stays. In many countries, young people fled the areas along the rivers, abandoning large tracts of rich fertile land. Villagers who stayed to live along the rivers accepted the nodules, the torturous itching, and eventual blindness as an inescapable part of life.

Having looked at how Merck dealt with its discovery of a cure for river blindness, let us now turn to the relationship between ethics and business. Pundits sometimes quip that the phrase *business ethics* is a contradiction in terms because there is an inherent conflict between ethics and the pursuit of profit. When ethics conflicts with profits, they imply, businesses always choose profits over ethics. Yet, the case of Merck suggests a different perspective—a perspective that many companies are increasingly taking. Merck's managers spent $200 million developing a product they knew had little chance of ever being profitable. They did so because they felt they had an ethical obligation to make its potentially great benefits available to people. In this case, at least, a large and very successful business seems to have chosen ethics over profits. Moreover, the comments of Dr. Vagelos at the end of the case suggest that, in the long run, there may be no inherent conflict between ethical behavior and the pursuit of profit. His comments suggest that ethical behavior creates the kind of goodwill and reputation that expand a company's opportunities for profit.

LONG-TERM BUSINESS STRATEGY Not all companies operate like Merck, and Merck itself has made decisions that were not ethical. Many—perhaps most—companies will not invest in a project that will probably be unprofitable even if it will benefit humanity. Every day newspapers announce the names of companies that choose profits over ethics or that, at least for a time, profited through unethical behavior: Enron, WorldCom, Global Crossing, Rite-Aid, Oracle, ParMor, Adelphia, Arthur Andersen, Louisiana-Pacific, and Qwest are but a few of these. In 2004, even Merck was accused of failing to disclose heart problems associated with its drug Vioxx, and in 2010 the company put $4.85 billion into a fund to compensate patients who said they had suffered heart attacks or strokes because they had used Vioxx. In spite of its significant lapse in regard to Vioxx, Merck has remained committed to operate ethically. It has continued to win dozens of awards for its ethically responsible operations.[1]

Although many companies engage in unethical behavior, habitually unethical behavior is not necessarily a good long-term business strategy. Ask yourself whether, as a customer, you prefer buying from a business that you know is honest and trustworthy or one with a reputation for being dishonest and crooked. As an employee, are you more likely to loyally serve a company that treats you with fairness and respect or one that habitually treats

The Cure for River Blindness

In 1980, Dr. Bill Campbell and Dr. Mohammed Aziz, research scientists working for Merck, had discovered evidence that one of the company's best-selling animal drugs, Ivermectin, might kill the parasite that causes river blindness. Aziz, who had once worked in Africa and was familiar with river blindness, traveled to Dakar, Senegal, where he tested the drug on villagers who had active infections. He found that a single small dose of the drug killed all the microfilariae, made the female worms sterile, and made the person immune to new infections for months.[2, 3, 4, 5, 6]

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When Aziz returned to the United States, he and Campbell went to see Merck's head of research and development, Dr. P. Roy Vagelos, a former physician. They showed him their results and recommended that Merck develop a human version of the drug.

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you and other workers unjustly and disrespectfully? Clearly, when companies compete for customers and for the best workers, the company with a reputation for ethical behavior has an advantage over one with a reputation for being unethical.

1.1.2: Clarifying Ethical Issues

This text takes the view that ethical behavior is the best long-term business strategy for a company—a view that has become increasingly accepted during the last few years.[7] Acceptance of this view does not mean that occasions never arise when doing what is ethical will prove costly to a company. Such occasions are common in the life of a company, and we will see many examples in this text. Nor does it mean that ethical behavior is always rewarded or that unethical behavior is always punished. On the contrary, unethical behavior sometimes pays off, and the good guy sometimes loses. To say that ethical behavior is the best long-range business strategy just means that, over the long run and for the most part, ethical behavior can give a company significant competitive advantages over companies that are not ethical. The example of Merck suggests that being ethical is a good business strategy. A bit of reflection on how consumers and employees respond to companies that behave unethically shows that unethical behavior leads

Ethical Application

Analyzing Merck's Decision

It is important to study ethics because often it is not clear what the ethical course of action is. In fact even the Merck decision raises questions that require some hard thinking. In the Merck case, Dr. Roy Vagelos decided that the company had an ethical obligation to proceed with the development of Mectizan. Yet to someone else, the issue may not have been so clear. Vagelos noted he would be "spending a considerable amount of company money" in a way that would not "make stockholders happy" and that would put his own career at "some risk." Don't the managers of a company have a duty toward investors and shareholders to invest their funds in a profitable manner? Indeed, if a company spent all of its funds on charitable projects that lost money, wouldn't it soon be out of business? Then, wouldn't its shareholders be justified in claiming that the company's managers had spent their money unethically? Should Vagelos have risked his career, considering the implications that such risk would have had for his family? Is it so clear, then, that Vagelos had an ethical obligation to invest in an unprofitable drug? What reasons would justify Vagelos's belief that Merck had an obligation to develop Mectizan? Can any good reasons justify the claim that Merck had no such obligation? Which view do you think is supported by the strongest reasons?

to a loss of customer and employee support. Later, we will see what more can be said for and against the view that ethical behavior is the best long-term business strategy for a company. The more basic problem is that the ethical course of action is not always clear to a company's managers.

Although ethics may be the best policy, then, the ethical course of action is not always clear. The purpose of this text is to help you, the reader, deal with this lack of clarity. Although many ethical issues remain difficult and obscure even after a lot of study, gaining a better understanding of ethics will help you deal with ethical uncertainties more adequately.

This text aims to clarify the ethical issues that you may face when you work in a business and, perhaps, become part of a company's management team. This does not mean that it is designed to give you moral advice nor that it is aimed at persuading you to act in certain "moral" ways. The main purpose of the text is to provide you with a deeper knowledge of the nature of ethical principles and concepts. Studying the many cases it contains can help you see how to use this knowledge to deal with the ethical choices you will encounter in the business world. This type of knowledge and skill should help you steer your way through ethical decisions like the one Dr. Vagelos had to make. Everyone in business is confronted with decisions like these, although usually not as significant as deciding whether to develop a cure for river blindness. Before you even start working for a company, you will be faced with ethical decisions about how "creative" your resume should be. Later, you may have to decide whether to cut corners just a little in your job. Or whether to give your relative or friend a company contract. Or whether to put a little extra into the expenses you report for a company trip you made. Maybe you will catch a friend stealing from the company and have to decide whether to turn him in. Maybe you will find out your company is doing something illegal and have to decide what you are going to do about it. Maybe your boss will ask you to do something you think is wrong. Ethical choices confront everyone in business, and this text should give you some ways of thinking through these choices.

1.2: Moral Reasoning and Moral Decision Making

OBJECTIVE: Emphasize the importance of moral reasoning and moral decision-making in business ethics

According to the dictionary, the term *ethics* has several meanings. One of the meanings given to it is as follows: "the principles of conduct governing an individual or a group."[8] We sometimes use the term *personal ethics* when referring to the rules by which an individual lives his or her personal life. We use the term *accounting ethics* when referring to the code that guides the professional conduct of accountants.

A second—and for us, more important—meaning of ethics according to the dictionary is this: ethics is the study of morality. Just as chemists use the term *chemistry* to refer to a study of the properties of chemical substances, ethicists use the term *ethics* to refer primarily to the study of morality. Although ethics deals with morality, it is not quite the same as morality. Ethics is a kind of investigation. It is an investigation into morality that includes both the activity of investigating as well as the results of that investigation. Morality, on the other hand, is the subject matter that ethics investigates.

So what, then, is morality? We can define *morality* as the standards that an individual or a group has about what is right and wrong, or good and evil. To clarify what this means, let's consider another case, one that is different from the Merck case.

1.2.1: BFGoodrich

Several years ago, BFGoodrich, a manufacturer of vehicle parts, won a military contract to design, test, and manufacture aircraft brakes for the A7-D aircraft. The A7-D was a new lightweight airplane the U.S. Air Force was developing.

Brakes for the A7-D Aircraft

An older BFGoodrich engineer, John Warren, designed the brake. A young engineer named Searle Lawson was given the job of determining the best material to use as the brake lining and testing the brake to make sure it qualified. Lawson was in his twenties. He had just graduated from school with an engineering degree, and BFGoodrich had only recently hired him.[9, 10, 11, 12, 13]

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Lawson built a prototype—a working model—of the small brake to test lining materials. He found that when the brake was applied, the linings on the four rotors heated up to 1,500 degrees and began disintegrating. When he tried other linings and got the same results, Lawson went over Warren's design and decided that it was based on a mistake. By his own calculations, there was not enough surface area on the rotors to stop an airplane in the required distance without generating so much heat that the linings failed. Lawson went to Warren, showed him his calculations and suggested that Warren's design be replaced with a new design for a larger brake with five rotors. Warren rejected the suggestion that his design was based on a mistake that a "green kid" just out of engineering school had discovered. He told Lawson to keep trying different materials for brake linings until he found one that worked.

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To conserve weight, BFGoodrich managers guaranteed that their compact brake would weigh no more than 106 pounds, contain no more than four small braking disks or rotors, and be able to repeatedly stop the aircraft within a specified distance. The contract was potentially very lucrative for the company. So its managers were anxious to deliver a brake that "qualified," that is, that passed all the tests the U.S. Air Force required for the A7-D.

1.2.2: Moral and Nonmoral Standards and Norms

Moral standards include the *norms* we have about the kinds of actions we believe are morally right and wrong, as well as the kinds of things we believe are morally good or morally bad. Moral norms can usually be expressed as general rules about our actions. These are examples of general rules that express moral norms: "Always tell the truth," "It's wrong to kill innocent people," and "Actions are right to the extent that they produce happiness." Our beliefs about the kinds of things we judge to be morally good or morally bad can usually be expressed with statements that indicate their value, such as "Honesty is good," and "Injustice is bad."

Where do moral standards come from? Typically, moral standards are first learned when we are children. We learn our moral standards from family, friends, and various societal influences such as church, school, television, magazines, music, and associations. Later, as we mature, our life experience and intellectual development may lead us to evaluate and perhaps revise these standards.

We may judge some moral standards to be reasonable and others we may come to see as unreasonable. If we decide a certain moral standard is unreasonable, we may discard it and adopt a new standard that seems more reasonable than the one we previously accepted. Through this maturing process, we develop moral standards that are more rational and so more suited for dealing with the moral issues of adult life. As Lawson and Vandivier's example shows, however, we do not always live up to the moral standards we hold. That is, we do not always do what we believe is morally right nor do we always pursue what we believe is morally good. Later in the chapter, we will look at how our actions can become disconnected from our moral beliefs.

Moral standards can be contrasted with norms or standards we hold about things that are not moral. Examples of **nonmoral standards** and norms include the standards of etiquette by which we judge people's manners as good or bad, the rules of behavior set by parents, teachers, or other authorities, the norms we call *the law* by which we determine what is legally right and wrong, the standards of language by which we judge what is grammatically right and wrong, the standards of art by which we judge whether a painting or a song is good or bad, and the sports standards by which we judge how well a game of football or basketball is being played. In fact, whenever we make judgments about the right or wrong way to do things, or judgments about what things are good and bad, or better and worse, our judgments are based on standards or norms of some kind. In Vandivier's case, we can guess that he probably believed that reports should be written with good grammar; that having a well-paid, pleasant, and challenging job was a good thing; and that it's right to follow the law and wrong to break it. The norms of good grammar, the value of a well-paid, pleasant, and challenging job, and the laws of government are also standards. However, these standards are not moral standards. As Vandivier's decision demonstrates, we sometimes choose nonmoral standards over our moral standards.

How do we distinguish between moral and nonmoral standards? Before reading any further, look at the two groups of norms in table 1.1 and see if you can tell which is the group of moral norms and which is the group of nonmoral norms.

Table 1.1 Moral versus Nonmoral Norms

Group 1	Group 2
"Do not harm other people."	"Do not eat with your mouth open."
"Do not steal what belongs to others."	"Do not chew gum in class."
"Do not lie to other people."	"Do not wear socks that do not match."

During the last two decades, numerous studies have shown that the human ability to distinguish between moral norms and nonmoral norms emerges at a very early age. Moreover, that ability remains with us throughout life.[14] Psychologist Elliot Turiel and several others have found that by the age of three, a normal child has acquired the ability to tell the difference between moral norms and conventional norms. By age three, the child sees violations of moral norms as more serious and always wrong. However, violations of nonmoral norms are seen as less serious, and those violations are seen as wrong only when authorities mandate such norms.[15] For example, three-year-olds will say that it is not wrong to chew gum at schools where teachers do not have a rule against it. But they will insist it is still wrong to hit someone even at schools where teachers do not have a rule against hitting. Because this ability to distinguish between moral and conventional norms develops in childhood, it was not just easy, but trivially easy for you to see that the norms in group one are moral norms and those in group two are nonmoral norms. This innate ability to distinguish moral norms from nonmoral norms is not unique to Americans, Europeans, or Westerners. It is an ability that every normal human being in every culture develops.[16] Even though all cultures may not agree on which norms are moral norms and which are nonmoral norms (although there is a surprising amount of agreement), they do agree that the two are different and that the difference is extremely important.

Quick Review 1.1
Moral Norms and Nonmoral Norms

- From the age of three, we can distinguish moral from nonmoral norms.
- From the age of three, we tend to think that moral norms are more serious than nonmoral norms and apply everywhere, independent of what authorities say.
- The ability to distinguish moral from nonmoral norms is innate and universal.

DISTINGUISHING BETWEEN MORAL AND NONMORAL NORMS What is the difference between moral norms and nonmoral, or conventional, norms? This questions is not easy to answer, even though three-year-olds seem to know the difference. Philosophers have suggested six characteristics that help pin down the nature of moral standards. (Psychologist Elliot Turiel and others have drawn on the work of philosophers to help them distinguish moral from nonmoral norms in their studies.)

Six Characteristics of Moral Standards

Moral standards are standards that deal with matters that we think are of serious consequence, override self-interest, are based on good reasons and not on authority, are universal, are based on impartial considerations, and are associated with special feelings such as guilt and shame, and with a special moral vocabulary such as "obligation," or "responsibility." We learn these standards as children from a variety of influences and revise them as we go through our lives.[17, 18, 19, 20, 21, 22, 23]

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1. Moral Standards Deal with Serious Matters

Moral standards deal with matters that are serious. That is, they deal with matters that we think can seriously wrong or significantly benefit human beings. For example, most people in American society hold moral standards against theft, rape, enslavement, murder, child abuse, assault, slander, fraud, law-breaking, and so on. These standards plainly deal with matters that people feel are serious forms of injury. Because they are about serious matters, violating moral standards is seen as seriously wrong. Moreover, we feel that the obligation to obey moral standards has greater claim on us than conventional norms do. In the BFGoodrich case, it was clear that both Lawson and Vandivier felt that lying in their report and endangering the lives of pilots were both serious harms, and so both were moral matters. On the other hand, failing to adhere to grammatical standards would not have been a serious failure. Since the benefits of developing a cure for river blindness were so significant, Vagelos felt that Merck had a moral obligation to develop the drug Mectizan.

2. Moral Standards Are Preferred to Other Values

3. Moral Standards Are Independent of Authority

4. Moral Standards Are Universal

5. Moral Standards Are Determined Impartially

6. Moral Standards Are Associated with Special Emotions and Vocabulary

1.2.3: Refining the Concept of Ethics

What, then, is ethics?

> ***Ethics* is the discipline that examines your moral standards or the moral standards of a society.**

Ethics asks how moral standards apply to your life and whether these standards are reasonable or unreasonable—that is, whether they are supported by good reasons or poor ones. So you start to engage with ethics when you take the moral standards you have absorbed from family, church, and friends and ask yourself questions like these: What do these standards imply for the situations in which I find myself? Do these standards really make sense? What are the reasons for or against these standards? Why should I continue to believe in them? What can be said in their favor and what can be said against them? Are they really reasonable for me to hold? Are their implications in this or that particular situation reasonable?

Ethical Application

Returning to BFGoodrich

To illustrate the kinds of questions ethics asks lets return to Vandivier's role in the BFGoodrich case. Vandivier had apparently been raised to accept the moral standard that one has an obligation to tell the truth. Consequently, he felt that in his particular situation, it would be wrong to write a false report on the brake. We might ask whether writing what he believed would be a false report was really wrong in his particular circumstances. Vandivier had several important financial obligations both toward himself and other people. He has stated, for example, that he had just married and bought a house, so he had mortgage payments to make each month and had to provide support for his family. If he did not write the report as he was ordered to do, then he would be fired and not be able to live up to these obligations. Do these moral obligations toward himself and his family outweigh his obligation to not write a false report? What is the basis of his obligation to tell the truth, and why is the obligation to tell the truth greater or lesser than a person's obligations toward oneself and one's family?

Next, consider Lawson's obligations toward his employer, BFGoodrich. Doesn't an employee have a moral obligation to obey his employer? Does the obligation to obey one's employer outweigh the obligation to "try to do your best" as an engineer? What is the source of both of these obligations, and what makes one greater or lesser than another? Also consider that the company and all its older and more experienced managers insisted that the best course of action was to write the report qualifying the brake. If something went wrong with the brake or the contract, BFGoodrich would be held accountable, not Lawson, who was a young and relatively low-level employee. Since the company, not Lawson, was accountable, did it have the moral right to make the final decision about the report, instead of Lawson, who had just finished college? Does the moral right to make a decision belong to the party that will be held accountable for the decision? What is the basis of such a right, and why should we accept it?

Finally, consider that Vandivier stated that his refusal to write the report would have given him some "satisfaction" but would have made no difference because someone else would have been hired to write the report. Since the consequences would be the same whether he agreed or refused, did he really have a moral obligation to refuse? Can one have a moral obligation to do something that will make no difference? Why?

Notice the sort of questions that arise from the choices Vandivier and Lawson faced in the BFGoodrich case. They are questions about the reasonableness of our moral standards or about the way we use them. These questions could include the following: Is it reasonable to apply various moral standards to a situation? Is it reasonable to say that one moral standard is more important or less important than another? What reasons might we have to hold certain moral standards? When you ask these kinds of questions about your own moral standards or about the moral standards of a society, you have started to engage in ethics. Ethics is the study of moral standards. It is the process of examining the moral standards you or your society (or other societies) holds in order to determine whether these standards are reasonable or unreasonable and how they apply to the concrete situations and issues you face. The ultimate aim of ethics is to develop a body of moral standards that you feel are reasonable for you to hold. They will be reasonable to the extent that you have thought them over carefully and have decided they are justified for you to accept and to apply to the choices you make.

NORMATIVE AND DESCRIPTIVE STUDY Ethics is not the only way to study morality. The social sciences—such as anthropology, sociology, and psychology—also study morality. However, they do so in a way that is different from the approach to morality that ethics takes. While ethics is a *normative* study of morality, the social sciences engage in a *descriptive* study of morality.

A *normative study* is an investigation that tries to reach normative conclusions—that is, conclusions about what things are good or bad or about what actions are right or wrong.

A normative study aims to discover what *ought* to be. As we have seen, ethics is the study of moral standards whose explicit purpose is to determine as far as possible which standards are correct or supported by the best reasons, and so it tries to reach conclusions about moral right and wrong and moral good and evil.

A *descriptive study* is an investigation that does not try to reach any conclusions about what things are truly good or bad or right or wrong.

However, a descriptive study tries to describe or explain the world without reaching any conclusions about whether the world is as it ought to be. For example, anthropologists and sociologists may study the moral standards that a particular village or culture holds. They may try to develop accurate descriptions of the moral standards of that culture and perhaps develop a theory that explains how they came to hold those standards. However, it is not the aim of anthropologists or sociologists to determine whether these moral standards are correct or incorrect.

Ethics, in contrast, is a study of moral standards whose explicit purpose is to determine as far as possible whether a given moral standard (or moral judgment based on that standard) is more or less correct. The sociologist asks, "Do Americans believe that bribery is wrong?" By contrast, the ethicist asks, "Is bribery wrong?" The ethicist, then, is concerned with developing reasonable normative claims and theories. However, an anthropological or sociological study of morality aims at providing descriptive characterizations of people's beliefs and theories that can explain those beliefs.

BUSINESS ETHICS What we have said about ethics so far has been meant to convey an idea of what ethics is.

Here, however, we are not concerned with ethics in general, but with a particular field of ethics: business ethics.

> ***Business ethics* is a specialized study of moral right and wrong that focuses on moral standards in business institutions, organizations, and activities.**

Business ethics is a study of moral standards and how these apply to the social systems and organizations through which modern societies produce and distribute goods and services, and to the activities of the people who work within these organizations. Business ethics is a form of applied ethics. It not only includes the analysis of moral norms and moral values but also tries to apply the conclusions of this analysis to the institutions, organizations, and activities that we call business.

As this description of business ethics suggests, the issues that business ethics covers encompass a wide variety of topics. When analyzing the ethical issues raised by a concrete situation or case, the issues can be sorted in terms of whether they are *systemic*, *corporate*, or *individual* issues.

Failing to sort out the different kinds of issues raised by a concrete situation can result in a lot of confusion. Moreover, the kinds of solutions appropriate for systemic or corporate issues are generally not appropriate for dealing with individual issues. If a company is trying to deal with a systemic issue—such as a government culture that permits bribery—then the issue must be dealt with on a systemic level. That is, the systemic issue must be dealt with through the coordinated actions of many different social groups. On the other hand, corporate ethical issues

Types of Issues Covered by Business Ethics

To introduce some order into this variety, it will help if we distinguish between the three different kinds of issues.

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Systemic Issues | Corporate Issues | Individual Issues

Systemic issues in business ethics are ethical questions about the economic, political, legal, and other institutions within which businesses operate. They include questions about the morality of capitalism or of the laws, regulations, industrial structures, and social practices within which U.S. businesses operate. One example would be questions about the morality of the government contracting system through which BFGoodrich was allowed to test the adequacy of its own brake design for the A7-D. Another example would be questions about the morality of the international institutions with which Merck was forced to deal when it was looking for a way to get its cure for river blindness to the people who needed it most.

Ethical Application

BFGoodrich: Conclusion

So what happened after Searle Lawson and Kermit Vandivier turned in their report and the U.S. Air Force put the BFGoodrich brakes on planes flown by their test pilots? Lawson was sent as BFGoodrich's representative to Edwards Air Force Base in California where the test flights took place. There, he watched as the brakes caused several near crashes when the pilots tried to land the planes. In one case, he saw an airplane go skidding down the runway when the pilot's braking produced so much heat in the brake that its parts fused together and the wheels locked up. Surprisingly, none of the pilots were killed. When Lawson returned home, both he and Vandivier quit and notified the FBI of what had been going on. This was their way of dealing with the individual issues their actions had raised. A few days later, BFGoodrich announced that it was replacing the small brake with a larger five-disk brake at no extra charge to the U.S. government. In this way the company's managers tried to deal with the *corporate* issues the brake incident had created. About a year later, Lawson and Vandivier came before the U.S. Congress and testified about their experiences at BFGoodrich. Shortly thereafter, the U.S. Department of Defense changed the way it let companies test equipment, making fraudulent reports less likely. These changes were responses to a key *systemic* issue that became obvious once the truth came out.

can be solved only through corporate or company solutions. If a company has a culture that encourages moral wrongdoing, for example, then changing that culture requires the cooperation of many corporate personnel. Finally, individual ethical issues need to be solved through individual decisions and actions, and, perhaps, individual reform. Individual actions, however, will generally be ineffective when the important issue is a corporate or systemic issue.

Quick Review 1.2
Business Ethics Studies . . .

- How our moral standards apply to business
- How reasonable or unreasonable the moral standards we have absorbed from society are
- The implications that our moral standards have for business activities

1.2.4: Applying Ethical or Moral Concepts to Corporations

The statement that business ethics applies ethical or moral concepts to corporate organizations raises a puzzling issue. Can we really say that the acts of organizations are moral or immoral in the same way that the actions of human individuals are? Can we say that corporations are morally responsible for their acts in the same sense that individuals are morally responsible for what they do? Or must we say that it makes no sense to apply moral terms to organizations as a whole, but only to the individuals who make up the organization? A few years ago, for example, employees of Arthur Andersen, an accounting firm, were caught shredding documents potentially proving that its accountants helped Enron hide its fraud by using several accounting tricks. The U.S. Justice Department charged the firm of Arthur Andersen with obstruction of justice but not the employees who shredded the documents. Critics afterward claimed that the U.S. Justice Department should have charged the individual employees of Arthur Andersen, not the company. "Companies don't commit crimes," they said, "people do."[24] Can moral notions like responsibility, wrongdoing, and obligation be applied to corporations, or are individuals the only real moral agents?

Should corporations be viewed as moral agents or are humans alone moral agents? The underlying difficulty with which both views are trying to struggle is this: although we say that corporate organizations exist and act like individuals, obviously they are not human individuals. Yet, our moral categories are designed to deal with human individuals who feel, reason, and deliberate, and who act on their feelings, reasons, and deliberations. So, how can we apply these moral categories to corporations and their acts when corporations have neither feelings nor minds with which to reason or deliberate?

We can see our way through these difficulties if we first note that corporate organizations and their acts depend on human individuals. Since corporate acts originate in the choices and actions of human individuals, those individuals are the *primary* bearers of moral duties and responsibility. Human individuals are responsible for what the corporation does because corporate actions flow wholly out of their decisions and behaviors. If a corporation acts wrongly, it is because of what some individual or individuals in that corporation chose to do. If a corporation acts morally, it is because some individual or individuals in that corporation chose to have the corporation act morally. As several law courts have held, the idea that the actions of a corporation are the actions of some "person" who is separate from the humans who carry out those actions is a "legal fiction."[25] This fiction is set aside (by "piercing the corporate veil") when justice requires that those humans who really carried out the actions of the corporation should be held responsible for injuries "the corporation" caused.[26]

Nonetheless, it makes perfectly good sense to say that a corporate organization has moral duties and that it is morally responsible for its acts. However, organizations have moral duties and are morally responsible in a *secondary* or *derivative* sense. A corporation has a moral duty to do something only if some of its members have a moral duty to make sure it is

Can Moral Notions Be Applied to Corporations?

Two views have emerged in response to the question of whether moral notions can be applied to corporations.[27]

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Companies Act as Moral Agents | Companies Act as Machines

Arguments in Favor

At one extreme is the view of those who argue that if an agent (such as a company) *acted* and it acted *intentionally*, then it is a "moral agent." That is, it is an agent capable of having moral rights and obligations and being morally responsible for its actions, just like humans. The argument for this view goes like this: We can clearly say that corporations engage in actions and that they carry out those actions intentionally. Companies, for example, can merge together, make contracts, compete against other companies, and make products. These things do not just happen: companies seem to do these things intentionally. However, if an agent can act intentionally, then it can be morally responsible for its actions and it can be blamed when it does what is morally wrong. It follows, therefore, that corporations are morally responsible for their actions, and that their actions are moral or immoral in exactly the same sense as those of an individual.

Limitations of This View

The major problem with this view is that organizations do not seem to act or intend to act in the same sense that people do. Unlike individuals, organizations have no minds to form intentions. They are conscious of neither pain nor pleasure nor anything else. Unlike individuals, organizations do not act on their own; instead, humans must act for them.

done. Moreover, a corporation is morally responsible for something only if some of its members are morally responsible for what happened; that is, only if they acted with knowledge and of their own free will—topics we will discuss later.

The central point is that when we apply the standards of ethics to business, we must not let the fiction of "the corporation" obscure the fact that human individuals control what the corporation does. So these human individuals are the *primary* carriers of the moral duties and moral responsibilities that we attribute in a *secondary* sense to the corporation. This is not to say, of course, that the human beings who make up a corporation are not influenced by each other and by their corporate environment. Corporate policies, corporate culture, and corporate norms all have an enormous influence on the behavior of corporate employees. However, a corporation's policies, culture, and norms do not make the employee's choices and so they are not responsible for the actions of that employee. We will return to this issue when we discuss moral responsibility in Module 1.5.

Quick Review 1.3
Should Ethical Qualities Be Attributed to Corporations?

- One view says corporations, like people, act intentionally and have moral rights and obligations, and are morally responsible.
- Another view says it makes no sense to attribute ethical qualities to corporations since they do not act like people but more like machines; only humans can have ethical qualities.
- A middle view says that humans carry out the corporation's actions so they are morally responsible for what they do and ethical qualities apply in a primary sense to them; corporations have ethical qualities only in a derivative sense.

1.2.5: Objections to Business Ethics

We have described business ethics as the process of rationally evaluating our moral standards and applying them to business situations. However, many people raise objections to the very idea of applying moral standards to business activities. In this section, we address some of these objections and also look at what can be said in favor of bringing ethics into business.

In addition, occasionally people object to the view that ethical standards should be applied to the behavior of people within business organizations. Persons involved in business, they claim, should single-mindedly pursue the financial interests of their firm and not sidetrack their energies or their firm's resources into "doing good works." Three different kinds of arguments are advanced in support of this view. Here are some specific arguments.

1. In a free market economy, the pursuit of profit will ensure maximum social benefit, so business ethics is not needed.
2. A manager's most important obligation is loyalty to the company, regardless of ethics.
3. As long as companies obey the law, they will do all that ethics requires.

Each of the above arguments are discussed further in the following sections.

PROFIT BENEFITS ALL Some have argued that in perfectly competitive free markets, the pursuit of profit will by itself ensure that the members of society are served in the most socially beneficial ways.[28] To be profitable, each firm has to produce only what the members of society want and has to do so by the most efficient means available. The members of society will benefit most, then, if managers do not impose their own values on a business, but instead devote themselves to the pursuit of profit. By pursuing profit, they will efficiently produce what the members of society value.

Arguments of this sort conceal a number of assumptions that require a much lengthier discussion than we can provide at this stage. We will examine those assumptions later in this text. Here we only note some of the more questionable assumptions on which the argument rests, which are as follows:[29]

1. Most industrial markets are not "perfectly competitive" as the argument assumes. To the extent that firms do not have to compete, they can maximize profits despite inefficient production.
2. The argument assumes that any steps taken to increase profits will necessarily be socially beneficial. However, several ways of increasing profits actually injure society. Examples include allowing harmful pollution to go uncontrolled, deceptive advertising, concealing product hazards, fraud, bribery, tax evasion, and price fixing.
3. The argument assumes that by producing whatever the buying public wants (or values), firms produce what all the members of society want. However, the needs of large segments of society (the poor and disadvantaged) are not necessarily met when companies produce what buyers want. These segments of society cannot participate fully in the marketplace.
4. The argument is essentially making a normative judgment ("managers *should* devote themselves to the single-minded pursuit of profits") on the basis of some unspoken and unproved moral standard ("people should do whatever will benefit those who participate in markets"). Thus, although the argument tries to show that ethics does not matter, it assumes an unproved ethical standard to show this. That standard does not look very reasonable.

THE LOYAL AGENT'S ARGUMENT A second kind of argument sometimes advanced to show that business managers should single-mindedly pursue the interests of their firms and should ignore ethical considerations is embodied in what Alex C. Michales called the *loyal agent's argument*.[30] The argument can be paraphrased as follows:

1. As a loyal agent of his or her employer, the manager has a duty to serve the employer as the employer would want to be served (if the employer had the agent's expertise).
2. An employer would want to be served in whatever ways will advance his or her interests.
3. Therefore, as a loyal agent of the employer, the manager has a duty to serve the employer in whatever ways will advance the employer's interests.

Unethical managers have often used this argument to justify unethical conduct.

Ethical Application

Following Orders at WorldCom

Scott Sullivan, former finance executive for WorldCom, was accused of running an $11 billion accounting fraud that destroyed the retirement money thousands of employees had saved. Sullivan's defense was that his boss, Bernie Ebbers, had ordered him to "hit the numbers." Sullivan obeyed, although, he said, he raised an objection: "I told Bernie, 'This isn't right.'"[31] Betty Vinson, a former WorldCom accounting executive, defended her part in the fraud by pleading that Sullivan had ordered her to "adjust" the books to hide the company's poor financial state from investors.[32] Both Sullivan and Venison thought that loyal obedience to their employer justified ignoring the fact, which both admitted they knew, that what they were doing was wrong.

Notice that if in the loyal agent's argument we replace *employer* with *government*, and *manager* with *officer*, we get the kind of argument that Nazi officers used after World War II to defend their murder of about 6 million Jews and others that Hitler's government labeled "undesirables." When they were captured and brought to trial, the Nazi officers repeatedly defended their actions by claiming: "I had to do it because I had a duty to serve my government by following its orders."

It takes only a little reflection to realize that the loyal agent's argument rests on questionable assumptions. First, the argument tries to show that ethics does not matter by assuming an unproved moral standard. The assumed standard is "the manager *should* serve the employer in whatever way the employer wants to be served." However, there is no reason to think that this moral standard is acceptable as it stands. If an employer orders a manager to perform a criminal act, the manager certainly would not have a duty to obey. To be acceptable, then, the standard would have to say something like this: "the manager should serve the employer in whatever *moral* and *legal* way the employer wants to be served." Second, the loyal agent's argument assumes that there are no limits to the manager's duties to serve the employer. In fact, such limits are an express part of the legal and social institutions from which these duties arise. An agent's duties are defined by what is called the **law of agency**. The law of agency is that part of commercial law that specifies the duties of persons—"agents"—who agree to act on behalf of another party—the "principle." Lawyers, managers, engineers, stockbrokers, and so on all act as agents for their clients or employers. By freely entering an agreement to act as someone's agent, then, a person accepts a legal (and moral) duty to serve the client loyally, obediently, and in a confidential manner as specified in the law of agency.[33] But the law of agency states that when determining whether a client's or an employer's orders are "reasonable" and should be followed, the agent must take "business or professional ethics" into account. The law of agency specifically indicates that an agent never has a duty to do what a client, employer, or other principle asks the agent to do if it would require performing an act that is "illegal or unethical." [34]

The manager's duties to serve the employer, then, are limited by the constraints of ethics, since it is with this understanding that the duties of a loyal agent are defined. Finally, the loyal agent's argument assumes that once a manager agrees to serve an employer, whatever the manager does for his employer is justified. However, this assumption is false. An agreement to serve an employer does not automatically justify doing wrong on his or her behalf. If it is wrong for me knowingly to put people's lives at risk by selling them defective products, then it is still wrong when I am doing it for my employer. Agreements do not change the moral character of wrongful acts, nor does the argument "I was following orders" justify them.

IF IT IS LEGAL, IT IS ETHICAL A third kind of argument is sometimes made against bringing ethics into business. This is the objection that to be ethical it is enough for businesspeople to follow the law: If it is legal, then it is ethical. For example, managers at financial company Goldman Sachs were accused of helping Greece hide loans larger than European Union rules allowed. Goldman Sachs's managers allegedly disguised the loans as currency exchanges that legally did not have to be disclosed as debt. Greece's debt eventually got so huge that, in 2010, it threw Greece and then the entire European Union into a financial crisis whose consequences continue to reverberate. Goldman Sachs's managers were accused of behaving unethically because they helped Greece hide debt that was more than it could handle. In response, the managers excused themselves with the statement that "these transactions were consistent with European principles [laws] governing their use and application at the time."[35] Since it was legal, they were saying, it was ethical.

It is wrong, however, to see ethics as no more than what the law requires. It is true that some laws require behavior that is the same as the behavior required by our moral standards. Examples of these are laws that prohibit murder, rape, theft, fraud, and so on. In such cases, law and morality coincide, and the obligation to obey such laws is the same as the obligation to be moral. However, law and morality do not completely overlap. Some laws have nothing to do with morality because they do not involve serious matters. These include parking laws, dress codes, and other laws covering similar matters. Other laws may even violate our moral standards so that they are actually contrary to ethics. Our own pre-Civil War slavery laws, for example, required us to treat slaves like property, and the laws of Nazi Germany required anti-Semitic behavior. The laws of some Arab countries today require that businesses discriminate against women and Jews in ways that most people would say are clearly wrong. So it is clear that ethics is not simply following the law.

This does not mean, of course, that ethics has nothing to do with following the law.[36] Many of our moral standards have been incorporated into the law because enough of us feel that these moral standards should be enforced by the penalties of a legal system. On the other hand, laws are sometimes removed from our law books when it becomes clear that they violate our moral standards. Our moral standards against bribery, for example, were incorporated into the Foreign Corrupt Practices Act, and only a few decades ago it became clear that laws permitting job discrimination—like earlier laws permitting slavery—were unjust and had to be changed. Morality, therefore, has shaped and influenced many of the laws we have.

Moreover, most ethicists agree that all citizens have a moral obligation to obey the law so long as the law does not require clearly unjust behavior. This means that, in most cases, it is immoral to break the law. Tragically, the obligation to obey the law can create terrible conflicts when the law requires something that the businessperson knows or believes is immoral. In such cases, a person will be faced with a conflict between the obligation to obey the law and the obligation to obey his or her conscience. Such conflicts are not unusual. In fact, you the reader will likely have to deal with such a conflict at some point in your business life.

1.2.6: The Case for Ethics in Business

We have looked at some arguments that try to show that ethics should not be brought into business. Is there anything to be said for the other side—that ethics should be brought into business? Offhand, it would appear that ethics should be brought into business because ethics should govern all human activities and business is a human activity. There is nothing special about business that prevents us from applying the same ethical standards to business that we apply to all human activities.

In fact, a business cannot exist unless the people involved in the business and its surrounding society adhere to some standards of ethics:

1. Any individual business will collapse if all of its managers, employees, and customers come to think that it is morally permissible to steal from, lie to, or break their agreements with the company. Since no business can exist entirely without ethics, every business requires at least a minimal adherence to ethics on the part of those involved in the business.
2. All businesses require a stable society in which to carry on their business dealings. Yet, the stability of any society requires that its members adhere to some minimal standards of ethics. In a society without ethics, as the philosopher Hobbes once wrote, distrust and unrestrained self-interest would create "a war of every man against every man," and life would become "nasty, brutish, and short." The impossibility of conducting business in such a society—one in which lying, theft, cheating, distrust, and unrestrained self-interested conflict became the norm—is shown by the way in which business activities break down in societies torn by strife, conflict, distrust, and civil war. Since businesses cannot survive without ethics, then it is in the best interests of business to promote ethical behavior both among its own members as well as within its larger society.[37]

Is there any evidence that ethics is consistent with what most people see as the core of business: the pursuit of profit? To begin with, there are many examples of companies in which good ethics has existed side-by-side with a history of profitability. Companies that have combined a good history of profit with consistently ethical behavior include Levi Strauss & Co., Gap, Inc., Cummins Inc., Accenture, Intel, Google, Granite Construction, Colgate-Palmolive Company, Mattel, Inc., Applied Materials, Visa Inc., Kellogg Company, Weyerhaeuser Company, Baptist Health South Florida, Deere & Company, Eaton Corporation, Blue Shield of California, Starbucks Coffee, Whole Foods Market Inc., Petco Animal Supplies Inc., Cisco Systems, and United Parcel Service.[38] But many chance factors affect profitability such as overcapacity in a particular industry, recessions, weather patterns, interest rates, and changing consumer tastes. Consequently, these companies may be nothing more than the few companies in which ethics by chance happened to coincide with profits for a period of time.

There are, then, good reasons to think that ethics should be brought into business. Taken together, the arguments above—some philosophical and some more empirical—suggest that businesses are shortsighted when they fail to take the ethical aspects of their activities into consideration.

Quick Review 1.4
Arguments Supporting Ethics in Business

- Ethics applies to all human activities.
- Business cannot survive without ethics.
- Ethics is consistent with profit seeking.
- Customers, employees, and people in general care about ethics.
- Studies suggest that ethics does not detract from profits and seems to contribute to profits.

1.2.7: Business Ethics and Corporate Social Responsibility

Business ethics is sometimes confused with corporate social responsibility (CSR). Although the two are related, they are not quite the same. It is important to understand how they are different as well as how they are related to each other. We will begin by clarifying what CSR is because this will help us understand how business ethics and CSR are related. Note also that theories of CSR provide answers to the important question: What is the purpose of business?

The phrase *corporate social responsibility* refers to a corporation's responsibilities or obligations toward society.

Some disagreement exists about what a corporation's responsibilities or obligations include. Do companies have a responsibility to donate to charities or to give their

Positive Business Effects of Ethical Practices

Is there any evidence that ethics in business is helpful to business? That is, what can be said for the proposition that good ethics is also good business?[39, 40, 41, 42, 43, 44, 45, 46, 47, 48]

Interactive

Promotion of Trust and Cooperation

Avoidance of Reprisal

A lot of research in social psychology shows that people in all kinds of social situations respond to perceived injustices with moral anger—whether the injustice is directed against themselves or others—and this anger motivates them to attempt to restore justice by punishing the party that inflicted the injustice. Employees who feel their company's decision-making processes are unjust will exhibit higher absenteeism, higher turnover, lower productivity, and demand higher wages. Customers will turn against a company if they perceive a gross injustice in the way it conducts its business and will be less willing to buy its products. Customers and employees who feel a company has behaved unethically, for example, now sometimes start critical websites such as *complaintsboard.com*, *ripoffreport.com*, *pissedconsumer.com*, and *screwedcentral.com*.

On the other hand, when people feel that an organization is treating people fairly, they will reward it with loyalty and commitment. For example, when employees feel that an organization's decision-making processes are just, they exhibit lower levels of turnover and absenteeism, show higher levels of trust and commitment to the company and its managers, and demand lower wages. When employees believe an organization is just, they are more willing to follow the organization's managers, do what managers say, and tend to see managers' leadership as legitimate. In short, unethical behavior breeds reprisals, while ethical behavior breeds cooperation.

Increased Success

employees higher wages and customers safer products? Or are they obligated to maximize profits for their shareholders or stockholders?

One view of CSR is a view that many accept and that was articulated by the economist Milton Friedman. His view is that businesses should serve only the interests of shareholders and no one else.

STAKEHOLDER THEORY A view of CSR that is very different from the shareholder theory of Milton Friedman is a view called stakeholder theory. According to Edward Freeman and David Reed, two scholars who pioneered this view, a *stakeholder* is "any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives."[49] In other words, a stakeholder is anyone that can harm, benefit, or influence the corporation, as well as anyone the corporation can harm, benefit, or influence. A stakeholder, in short, is anyone who has a stake in what the company does.

For example, General Motors influences the lives of its customers when it decides how much safety it will build into its cars, it benefits employees when it raises salaries, it harms the local community when it shuts down a plant, and it benefits its stockholders when it increases their dividends. On the other hand, government can influence General Motors through the laws and regulations it passes, creditors can harm it by raising their interest rates or calling back a loan, and suppliers can benefit it by lowering their prices or raising the quality of the car parts they supply. General Motors' stakeholders, then, include customers, employees, local communities, stockholders, government, creditors, and suppliers. Of course, the influences between the company and its stakeholders can go

Evaluating Milton Friedman's Shareholder Theory

An extreme but traditional view of CSR is the view espoused by the late economist Milton Friedman. Friedman argued that in a "free enterprise, private-property system," corporate executives work for the "owners" of the company. Today these owners are the company's shareholders. As their employee, the executive has a "direct responsibility" to run the company "in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."[50]

Interactive

Milton Friedman's View

In Friedman's view, a company's only responsibility is to legally and ethically "make as much money as possible" for its owners; that is, to maximize shareholder returns. We can call his view the "shareholder theory" of CSR. The main reason why Friedman held this theory was that, in his view, shareholders own the company. Since the company is their—and only their—property, only they have the moral right to decide what it should be used for. These "owners" hire executives to run the business for them. So the executives have a moral obligation to do what the stockholders want. Moreover, what stockholders want, he claimed, is to make as much money as possible. Friedman did not say, however, that there are no limits to what executives can do to make stockholders as much money as possible. Executives, he explicitly said, must operate within the "rules of society," including both the rules of the "law" and the rules of "ethical custom."

Details of the Shareholder View

Criticisms of the Shareholder View

both ways. For example, although General Motors influences its customers and employees, customers can also influence General Motors by refusing to buy its cars, and employees can impact General Motors by going on strike. Other groups also are sometimes able to influence General Motors. For example, environmental activists or the media can impact General Motors by organizing demonstrations or by reporting on a safety defect of General Motors' cars. Thus, activist organizations, the media, and other interest groups can also become stakeholders of General Motors.

Unlike Friedman's shareholder theory, which says the corporation should be run for the benefit *only of its shareholders*, stakeholder theory says that a corporation should be run for the benefit of *all stakeholders*.

According to stakeholder theory, a manager should take all stakeholder interests into account when making decisions.

Managers should try to balance the interests of stakeholders so each stakeholder gets a fair share of the benefits the corporation produces. The manager, then, has the responsibility of running the company in a way that will best serve the interests of all stakeholders, not just stockholders.

Notice that stakeholder theory does not claim that managers should not try to make a profit; it does not even claim that managers should not try to maximize profits.

The claims of stakeholder theory are about *who should get* the profits. Friedman's shareholder theory says that the manager should try to maximize what goes to the stockholder, which means it should try to minimize what goes to other stakeholders (except, of course, when giving some stakeholders more would make even more profits for stockholders). Stakeholder theory, on the other hand, says that the manager should give stockholders a fair share of profits, but in a way that allows all other stakeholders to also get their fair share. This may mean, for example, investing in better working conditions for employees or in safer products for consumers, or in reducing pollution for the local community, even if doing so reduces the share of profits stockholders would get. Stakeholder theory, then, rejects Friedman's view that resources should not be used to benefit other stakeholders at the expense of shareholders.

EVALUATING THEORY AND THE BUSINESS-ETHICS RELATIONSHIP Which of these two views is correct: stakeholder theory or shareholder theory? Today, many businesses accept stakeholder theory, and most of the fifty U.S. states have passed laws that recognize business' obligations to its many stakeholders even at the expense of stockholder interests. will have to decide for themselves which theory makes the most sense and seems most reasonable. The two theories are critical to one's view of the important question: What is the purpose of business? Shareholder theory says the ultimate purpose of business is to serve the interests of stockholders and by doing so businesses in competitive markets will generally end up providing significant benefits to society. The stakeholder view says that the ultimate purpose of business is to serve the interests of all stakeholders and thereby the interests of all stakeholders are explicitly addressed even when

Support for the Stakeholder View of Corporate Social Responsibility

Two main kinds of arguments support the stakeholder view of CSR: instrumental arguments and normative arguments.[51]

Interactive

Instrumental Arguments | Normative Arguments

Instrumental arguments claim that being responsive to all of its stakeholders is in the best interests of the corporation, even though it may not be in the best interests of shareholders. The idea here is that if a company takes the interests of all its stakeholders into account, those stakeholders will be favorably disposed to do their part to support the company and its interests. For example, treating employees decently while paying them good salaries will make employees more loyal to the company, while treating employees poorly may lead to shirking or even destructive behavior. Similarly, when a company is responsive to environmentalists or other activists, these groups are less likely to engage in activities that can damage the company's image or its reputation. Yet paying employees higher wages and investing in meeting environmentalists' demands may force a company to reduce shareholder dividends. In short, instrumental arguments for stakeholder theory claim that being responsive to all stakeholders is good for the business even though it may reduce the profits shareholders get.

competitive markets fail to secure their interests. We cannot discuss these important questions any farther. Our aim here is only to explain corporate social responsibility so that we can explain how corporate social responsibility is related to business ethics.

So how are business ethics and CSR related? Being ethical, according to most scholars, is one of the obligations companies owe to society. In this respect, business ethics is a *part* of CSR. In what has become a widely accepted description of the kinds of social responsibilities companies can have, for example, Archie Carroll writes:

> The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations . . . [52]

CSR, then, is the larger more inclusive notion, and business ethics is just one part of this larger notion. In addition to its ethical obligations, a company's CSR includes those legal obligations, economic contributions, and those "discretionary" or philanthropic contributions society expects from companies. Notice that both shareholder theory and stakeholder theory can accept this way of defining what CSR includes. For example, Friedman explicitly says that a company should live up to the ethical and legal expectations of society, that by pursuing shareholder profits it will make the greatest economic contribution to society, and that it should make whatever other discretionary contributions it needs to make so that society will enable it to operate profitably. Stakeholder theory says that companies should be responsive to all its stakeholders and that would include making the economic and discretionary contributions society expects, as well as behaving ethically and legally toward its stakeholders.

However, the relationship between business ethics and CSR is more complicated than we have so far suggested. As we have seen, the arguments underlying the various views of business's obligations to society—both the arguments that say businesses are *obligated* only to stockholders, and those that say they have *obligations* to all stakeholders—are ethical arguments. Friedman, for example, held that owners have the *right* to say how the corporation should be run because they own the corporation, and so managers have the *obligation* to do what stockholders want. The normative argument for stakeholder theory, as we saw, says that *fairness* implies that business has *obligations* to all stakeholders. All of these concepts—rights, obligations, and fairness—are ethical concepts. So ethics is not only part of a company's social responsibilities; ethics also provides the basic normative reasons for CSR. Paradoxically, then, ethics is one of business's social responsibilities, but business has these responsibilities to society because it is what ethics demands.

Quick Review 1.5

Corporate Social Responsibility Is a Business's Societal Obligation

- Friedman's shareholder theory argued that a manager's only responsibility is to legally and ethically make as much money as possible for shareholders.
- Stakeholder theory says managers should give all stakeholders a fair share of the benefits a business produces.
- Business ethics is both a part of CSR and part of the justification for CSR.

1.3: Ethical Issues in International Business

OBJECTIVE: Examine ethical issues arising from globalization and international business connections and practices

We have so far discussed some of the main issues business ethics has had to deal with during human history. The issues we have talked about are the kinds of issues that, for the most part, arise within the national borders of a single country. Next, we will turn to look at some of the business ethics issues that emerge in the international arena, including technology.

1.3.1: Technology and Business Ethics

Technology consists of all those methods, processes, and tools that humans invent to manipulate and control their environment. Since the Industrial Revolution, technology has been developing rapidly and changing our societies. Businesses in particular have been transformed by the development of new technologies. Inevitably, these changes have raised the ethical issues we now face.

This is not the first time that new technologies have had a revolutionary impact on business and society. Several thousand years ago, during the Agricultural Revolution, people developed the first farming technologies. These technologies enabled them to stop relying on foraging and on the luck of the hunt. Farming could now provide a reasonably constant and consistent supply of food. The invention of irrigation, the harnessing of water and wind power, and the development of levers, wedges, hoists, and gears eventually allowed people to produce more than they consumed. Out of this surplus grew trade, commerce, and the first businesses. With commerce came the kinds of questions that make up business ethics: What is fair in trading? What is a just price? When are weights and measures deceptive?

In the eighteenth century, the technologies of the Industrial Revolution again transformed Western society and business. The Industrial Revolution introduced machines powered by fossil fuels, such as the steam engine, the railroad, and the cotton gin. Before the Industrial Revolution, most businesses were small organizations that operated in local markets. They were managed by an owner who employed relatively few workers, and those workers assembled goods by hand. The Industrial Revolution changed all of this. Machinery and the factory assembly line enabled businesses to make massive quantities of goods to ship and sell in national markets. Large-scale production required large organizations to manage the enormous armies of people needed to work the long assembly lines in huge factories. The result was the large corporation that came to dominate our economies. These large-scale organizations brought with them a host of new ethical issues. Were the workers who labored at the new machines being exploited? Was the stock that financed these large enterprises being fraudulently manipulated? Were the new factories producing such massive amounts of wastes that they were destroying the environment?

New technologies developed in the closing decades of the twentieth century again transformed business and introduced new ethical problems. Foremost among these developments were the revolutions in biotechnology and

Ethical Issues and New Technologies

Almost all ethical issues raised by our new technologies are related in one way or another to questions of risk: Are the risks of a new technology predictable? Are the benefits worth the potential risks, and who should decide? How large are the risks and are they reversible? Do those persons on whom the risks will fall know about the risk, and have they consented to bear these risks? Will they be justly compensated for their losses? Are the risks fairly distributed among the various parts of society, including poor and rich, young and old, future generations and present ones?

Interactive

Information Technology Related to Privacy

Many of the ethical issues new technologies have created—especially information technologies—are related to privacy. Technology lets us collect detailed information on individuals on a scale that was never possible before. Computer systems track users on the Internet, gather information on customers at cash registers, collect information on credit card purchases, retrieve information from applications for licenses, bank accounts, credit cards, e-mail, monitor employees at work stations, and so on. They have the power to link this information to other databases containing financial information, purchase histories, addresses, telephone numbers, driving records, arrest records, credit history, medical and academic records, or memberships. They can quickly sift, sort, analyze, or retrieve any part of this information for anyone who has access to the computer. However, gathering such detailed information about people, many argue, violates people's right to privacy. That is, it violates the right to prohibit others from knowing things about us that are private.

Information Technology Related to Property Rights

Nanotechnology

Biotechnology

in ***information technology***. These included the development of powerful computers, the Internet, wireless communications, digitization, and numerous other technologies that capture, process, and move information in innovative ways. Technology spurred a number of changes, including globalization and the decreasing importance of distance; the acceleration of change as product life cycles get shorter and revolutionary new products are invented and marketed ever more quickly; and the ability to create new life forms and new mechanisms whose benefits and risks are unpredictable. To cope with these rapid changes, business organizations have had to become smaller, flatter, and more nimble. Some have completely refashioned themselves as they have entered the world of e-commerce. Leaving their brick-and-mortar operations behind, they have transformed themselves into web-based entities that exist and operate largely in **cyberspace**. All of these developments have again forced businesses to deal with new ethical issues.

Quick Review 1.6
New Technologies Raise New Ethical Issues for Business

- The agricultural and industrial revolutions historically introduced new ethical issues.
- Information technology raises new ethical issues related to risk, privacy, and property rights.
- Nanotechnology and biotechnology raise new ethical issues related to risk and to the spread of dangerous products.

1.3.2: Globalization and Business Ethics

Many of the most pressing issues in business ethics today are related to the phenomenon of globalization.

> ***Globalization*** **refers to the way nations have become more connected so that goods, services, capital, knowledge, and cultural artifacts move across national borders at an increasing rate.**

Of course, for centuries people have moved and traded goods across national boundaries. Merchants have been carrying goods over the trading routes of Europe, Asia, and the Americas since recorded history began. However, the sheer volume of goods that are being moved and traded across national boundaries has grown almost exponentially since World War II. That international flow has transformed the face of our world. Globalization has resulted in a phenomenon that is familiar to anyone who travels outside their country. Namely, that the same products, music, foods, clothes, movies, brand names, stores, cars, and companies we know at home are now present everywhere in the world. People eat McDonald's hamburgers and Kentucky Fried Chicken on the sidewalks of Moscow, London, Beijing, Paris, Tokyo, Jerusalem, or Bangkok. Great Britain's *Harry Potter* novels have been read by children and adults in India, Japan, China, Italy, and Germany. People of every nation know the same bands, the same songs, the same singers, the same actors, and the same movies that entertain Americans.

Multinational corporations are at the heart of this process of globalization and are responsible for much of the enormous volume of international transactions that take place today.

> **A *multinational corporation* is a company that has operations in several nations.**

Multinationals make and market their products in whatever nations offer manufacturing advantages and attractive markets. They draw capital, raw materials, and human labor from wherever in the world they are cheap and available. Virtually all of the 500 largest U.S. industrial corporations today are multinationals. General Electric, for example, which was founded by Thomas Edison and is headquartered in New York, has operations in more than 100 countries around the world. Almost half of its revenues are made outside the United States. It has metallurgy plants in Prague, software operations in India, product design offices in Budapest, Tokyo, and Paris, and assembly operations in Mexico.

Quick Review 1.7
Globalization Is . . .

- To a large extent driven by multinationals
- Beneficial in that it has brought great benefits to developing countries including jobs, skills, income, technology, a decrease in poverty, specialization
- Blamed for many ills including rising inequality, cultural losses, a "race to the bottom," introduction of inappropriate technologies into developing countries

DIFFERENCES AMONG NATIONS Globalization has also required companies to operate in nations whose laws, governments, practices, levels of development, and cultural understandings are much different from those with which the multinational's managers are familiar.[53] This creates significant ethical dilemmas for their

Globalization: Advantages and Disadvantages

Globalization is a "mixed bag." While it has brought tremendous economic benefits to many poor nations, it has done so at a price. Both the benefits and the costs of globalization are, to a large extent, due to the activities of multinationals.[54, 55]

Interactive

Advantages of Globalization

Globalization has brought the world tremendous benefits. It has led multinationals such as Nike, Motorola, General Electric, and Ford to build factories and establish assembly operations in less developed countries with low labor costs. Multinationals have brought jobs, skills, income, and technology to these underdeveloped countries. This has raised the standard of living in these areas and provided consumers everywhere with lower-priced goods. According to the World Bank, between 1981 and 2011 the percentage of extremely poor people in the developing world was cut from 52 percent to 17 percent. (The extremely poor are those who live on less than $1.25 a day.) Globalization helped millions of people emerge from poverty in countries such as China, India, Bangladesh, Brazil, Mexico, and Vietnam. As a group, in fact, the economies of developing nations grew at about 5 percent per capita, while developed nations such as the United States grew by only 2 percent.

Globalization has also enabled nations to specialize in producing those goods that they can produce most efficiently, and then trade for what they do not make. India has specialized in software production. France and Italy have specialized in fashion and footwear design, and Germany has specialized in chemical production. The United States has specialized in computer hardware design, while Mexico has specialized in television assembly. Many developing regions such as Central America and Southeast Asia have specialized in apparel, shoe, and other low-skill assembly operations. Such specialization has increased the world's overall productivity, which in turn has made all participating nations better off than they would be if each nation tried to produce everything on its own.

Disadvantages of Globalization

managers. For example, the laws that the managers of Dow Chemical Company are used to in the United States are very different from those they find in Mexico and other host countries. Laws regulating workers' exposure to workplace toxins and other safety hazards are stringent in the United States, but they are vague, lax, or altogether lacking in Mexico. Consumer product safety and labeling laws require careful quality controls, rigorous product tests, and warnings of risk in the United States. However, Mexico allows lower levels of quality control, much less testing of products, and fewer warnings directed at consumers. The environmental pollution laws of the U.S. government are strict and set at very high levels. Those of Mexico set much lower standards or they are unenforced.

Entire governments can be completely different from the kind of government managers are accustomed to in industrialized nations. Although the U.S. government has its shortcomings, it is responsive to the needs of its citizens. The same cannot be said for the governments of many other nations. Some governments are so corrupt, that their legitimacy is questionable. The former government of Haiti, for example, was notoriously corrupt and consistently promoted the interests and wealth of a small group of government elites at the expense of the needs of the general population.

Managers also often find themselves in countries that are very undeveloped compared with their home country.[56] Industrialized countries have relatively high levels of technological, social, and economic resources available.

However, the resources of poorer countries can be quite undeveloped. Technological sophistication, unions, financial markets, unemployment insurance, social security, and public education are widespread in more developed countries. However, they are lacking in many developing countries. So managerial decisions in developing countries affect people differently from the way they affect people in developed countries. Many developing countries do not provide unemployment insurance like the United States does. So layoffs inflict greater pains on workers in those nations than they would in the United States. A warning fixed on a product label may be suitable when it is sold to educated consumers in Japan. However, it may be inadequate when the same product is sold to illiterate consumers in a developing country.

Moreover, the cultural views of some nations that managers of multinationals enter can be so different from their own that they misinterpret or misunderstand many of the behaviors they encounter there. In the United States, for example, it is considered a lie for a company to provide the government with income statements that materially understate the company's actual earnings. In some periods of Italy's history, however, it was accepted as a matter of course that all businesses understated their annual earnings by about one-third when they reported their earnings to the government. Knowing this, the government would automatically inflate each company's income statements by one-third and levy taxes on this more accurate estimate. Companies would willingly pay the tax the government imposed on them. Thus, because of a cultural practice that was understood both by the business community and the government, Italian companies did not actually lie to their government when they understated their income. What looked like a lie to an outsider was, in the cultural context, a clearly understood signal of a company's true income.

What should the manager of a multinational do when in a foreign country whose laws, government, level of development, and culture are significantly different from what the manager is used to? Some scholars have suggested that when operating in less developed countries, managers from developed nations should try to stick to the higher standards that are typical in their home countries.[57] Yet this suggestion ignores the real possibility that introducing such practices may do more harm than good. For example, if an American company operating in Mexico pays local workers U.S. wages, it may draw skilled workers away from local Mexican companies that cannot afford the same high salaries. Other scholars have gone to the opposite extreme and argued that multinationals should always follow local practices and laws. However, going along with a local practice or law may be worse than trying to operate by the higher standards of a developed country. For example, the lower environmental standards of Mexico may permit pollution levels that seriously harm the health of local residents. Moreover, the governments of some countries are corrupt, and their laws serve the interests of ruling elites and not the public interest.

It is clear, then, that both a blanket rule to always go along with local practices, as well as one that always tries to adhere to the higher standards of developed nations, are both inadequate. Instead, managers who want to operate ethically in foreign countries must judge each case as it comes along. When judging the ethics of a particular policy, practice, or action in a foreign country, they must take into account the nature of the country's laws, how corrupt and how representative its government is, what the country's level of technological, social, and economic development is, and what cultural understandings affect the meaning of the policy, practice, or action that is being judged. In some cases, going along with local practices may be what is right, while in other cases it may be better to adopt the standards found in more developed nations. In some cases, managers may have to choose between staying in a country and going along with a local practice that is clearly and seriously evil, or doing what is right and leaving the country.

Quick Review 1.8
Differences and Questions

- Differences exist in laws, governments, practices, levels of development, and cultural understandings.
- They raise the question whether managers in foreign countries should follow local standards or their home standards.

BUSINESS AND ETHICAL RELATIVISM Certain cultural differences create a special problem for managers. Managers of multinationals often find it hard to know what to do when they encounter *moral* standards that are different from the ones they personally hold and that are accepted in their home country. Nepotism and sexism, although condemned as morally wrong in the United States, for example, are accepted as a matter of course in some foreign business environments. The people of certain Arab societies hold that business bribery is morally acceptable, although Americans believe that it is immoral. What should a manager do when a government official in such a society asks for a bribe to perform some routine duty the official is supposed to provide for nothing? Or when the hiring department of a U.S. factory in Thailand seems to hire only relatives of those already working for the factory? Or when a group of South American managers refuse to accept a woman as a manager because they feel that women cannot be good managers?

The fact that different cultures have different moral standards leads many people to adopt ethical relativism.

Ethical relativism is the theory that there are no ethical standards that are true absolutely.

Ethical relativism holds that whether an ethical standard is true depends on (is relative to) what a particular culture or society accepts or believes. If a culture or society accepts or believes a certain ethical standard, then that standard is true for the people of that culture or society. However, if a culture or society rejects or does not believe in a certain ethical standard, then that standard is not true for the people of that culture or society. For the ethical relativist, then, no moral standards apply to everyone everywhere. A person's action is morally right if it accords with the ethical standards accepted in that person's culture, and it is wrong if it violates the ethical standards accepted in that person's culture. To put it another way: ethical relativism is the view that, because different societies have different moral beliefs, there is no rational way of determining whether a person's action is morally right (or wrong) other than by asking whether the members of the person's society believe it is morally right (or wrong).

The ethical relativist will say, for example, that it is wrong for a U.S. manager to engage in nepotism in the United States because everyone there believes that it is wrong. However, it is not wrong for a person in Thailand, for example, to engage in nepotism because people there do not see it as wrong. The ethical relativist would advise the manager of a multinational who works in a society whose moral standards are different from her own that she should follow the moral standards prevalent in the society in which she works. Since moral standards differ and since there are no absolute standards of right and wrong, the best a manager can do is follow the old adage, "when in Rome, do as the Romans do." But is ethical relativism a reasonable view to hold?

On the Edge

A Traditional Business

In over 28 countries, mostly North African nations, female circumcision—or female genital mutilation, as its critics call it—is generally accepted.[58] Female circumcision is normally performed when a girl is between 7 and 12 years old. It involves cutting the girl's external genitalia. In most countries, the procedure is done by a female "practitioner" who uses a small knife or razor blade but no anesthesia. A young girl will often resist, so several women must hold her down while the practitioner works. The women who perform circumcisions charge for their services and see their work as a business. It is estimated that in countries where the practice is widely accepted, the annual fees collected by all the businesses that provide circumcision services total tens of millions of dollars.

Mothers in these countries feel they must have their daughters circumcised because otherwise no "good" man will marry them. Many believe that circumcision controls a woman's sexual desires and cleanses her spiritually so that others can eat what she cooks. Although the practice is not mentioned in the Koran, many North African Muslims believe that female circumcision is required by certain sayings they attribute to Muhammad, the founder of Islam. However, Muslim scholars dispute both the authenticity and the interpretation of these sayings.

Many Americans and Europeans feel strongly that female genital mutilation is an immoral assault on a helpless and unwilling girl, an assault that provides her no medical benefit, risks serious infection, and permanently deprives her of the ability to feel sexual pleasure. They have pressured foreign governments to outlaw the practice and to crack down on the women who make a business of it because they are violating the human rights of thousands of girls.

Practitioners claim that Westerners who want to prohibit female circumcision are trying to impose their own morality on others. A Somali practitioner said: "This is a great offence and a great interference with our lives and our lifestyle. For too long Europeans have come into our countries and told us how to live our lives and how to behave and we believe that is totally unacceptable. We will not allow foreigners to tell us how to behave or put our businesses at risk any longer. In order for our daughters to be free they must have this procedure. It is their right as women and our obligation as adults to make them into the best young women we can. Circumcision is a fundamental part of becoming a young woman and we will not deny them that because of some misplaced sense of morality from foreigners."

Phillip Waites, a doctor and medical analyst for a news service noted, "The core issue here is whether or not Europeans have the right to step into another country and demand that they change their traditions and culture." Remarking on the many practitioners for whom female circumcision is a business, he said: "There aren't a whole lot of jobs in Somalia. There really isn't a whole lot of anything in Somalia frankly, and these women have a specialty that not only garners them a good living but also gives them a certain status in the country that they might not otherwise have."

WRITING PROMPT

Journal: Ethical Relativism

1. **Is the business of providing female circumcision services morally wrong? Why? If a practitioner asks for a small business loan from a Western "micro-finance lender" such as www.Kiva.org, would it be wrong for the lender to refuse? Would it be wrong for the lender to agree? Explain.**
2. **Is it wrong for Westerners to pressure North African governments to prevent practitioners from doing female circumcisions?**
3. **Does this case support ethical relativism? Or does it suggest that there are certain actions that are wrong no matter what? Or neither of these positions?**

The response entered here will appear in the performance dashboard and can be viewed by your instructor.

Submit

CRITICISM OF ETHICAL RELATIVISM The ethical relativist is clearly right to claim that there are numerous practices that are judged immoral by people in one society that people of other societies believe are morally acceptable. Some examples of practices societies disagree about include polygamy, abortion, infanticide, slavery, bribery, homosexuality, racial and sexual discrimination, genocide, patricide, and the torture of animals. Yet critics of ethical relativism have pointed out that it does not follow that *no* moral standards are binding on people everywhere. Although societies disagree about some moral standards, they agree on others. Critics of ethical relativism have argued, in fact, that there are certain basic moral standards that the members of any society must accept if that society is to survive and if its members are to cooperate with one another effectively.[59] Thus, all societies have norms against injuring or killing their own members, norms about using language truthfully among themselves, and norms against taking the goods that belong to other members of society. Moreover, anthropologists have found numerous moral values and norms that are universal; that is, that all known human groups recognize. Among these universals are the appropriateness of reciprocity; the appropriateness of cooperation; the prohibition of incest; the prohibition of rape; empathy; friendship; the difference between right and wrong; fairness; the requirement to compensate injuries; the goodness of courage; the requirement that parents care for their children; restrictions on some forms of violence; the prohibition of murder; the prohibition against breaking promises; the appropriateness of feeling guilt and shame for wrongdoing; the appropriateness of having pride for one's achievements; and the requirement that actions one could control should be treated differently from those one could not control.

In addition, many apparent moral differences among societies turn out on closer examination to hide deeper underlying similarities. For example, anthropologists tell us that in some Alaskan Inuit societies, it was morally acceptable for families to abandon their aged to die outdoors during times of hardship. Other societies have felt that abandoning someone to freeze to death outdoors is akin to murder. Yet on closer examination, it can turn out that underlying this difference between Inuit society and other societies is the same moral standard: the moral duty of ensuring the long-term survival of one's family. In their harsh environment, Inuit people may have had no way of ensuring the family's survival when food supplies ran short other than by abandoning their aged. Other societies have believed that family survival required protecting the elders who carried within them the knowledge and experience the family needed. The differences between Inuit people and other societies is not due to a real difference in values, but is due, rather, to the fact that one and the same value can lead to two different moral judgments when that value is applied in two very different situations.

Other critics of ethical relativism have pointed out that when people have different moral beliefs about some issue, it does not follow that there is no absolute truth about that issue nor that all beliefs about it are equally acceptable. All that follows when two people or two groups have different beliefs is that at least one of them is wrong. For example, the late philosopher James Rachels points out:

> The fact that different societies have different moral codes proves nothing. There is also disagreement from society to society about scientific matters: in some cultures it is believed that the earth is flat, and that disease is caused by evil spirits. We do not on that account conclude that there is no truth in geography or in medicine. Instead, we conclude that in some cultures people are better informed than in others. Similarly, disagreement in ethics might signal nothing more than that some people are less enlightened than others. At the very least, the fact of disagreement does not, by itself, entail that truth does not exist. Why should we assume that, if ethical truth exists, everyone must know it?[60]

The theory of ethical relativism, then, does not seem to be correct. However, even if the theory of ethical relativism is ultimately rejected, this does not mean that it has nothing to teach us. The ethical relativist correctly reminds us that different societies have different moral beliefs and that we should not simply dismiss the moral beliefs of other cultures when they do not match our own. However, ethical relativism seems to be mistaken in its basic claim that all moral beliefs are equally acceptable and that the only criteria of right and wrong are the moral standards prevalent in a given society. If ethical relativism is wrong, then there are some moral standards that should be applied to the behaviors of everyone, regardless of what society they live in. We will explore later what kind of standards these might be.

Quick Review 1.9
Objections to Ethical Relativism

- Some moral standards are found in all societies.
- Moral differences do not logically imply relativism.
- Relativism has incoherent consequences.
- Relativism privileges whatever moral standards are widely accepted in a society.

1.3.3: Integrative Social Contracts Theory

The upshot of our discussion is that there are two kinds of moral standards: those that differ from one society to another, and those that should be applied in all societies.

Ethical Relativism and Incoherent Consequences

Perhaps the most important criticism of ethical relativism is that it has incoherent consequences. If ethical relativism were true, opponents claim, then it would not make sense to criticize the practices of other societies as long as their practices conformed to their own standards. For example, we could not say that child slavery, as practiced in many societies around the world, is wrong, nor that the discrimination practiced in the society of apartheid South Africa in the twentieth century was unjust, nor that it was immoral for the Germans to kill Jews in the Nazi society of the 1930s. For, in each of these societies, people were just doing what the standards of their society said they should do.[61]

Interactive

Implies a Society's Moral Beliefs Are Correct

Critics of ethical relativism argue that if ethical relativism were correct, then it would make no sense—in fact it would be morally wrong—to criticize any of the moral standards or practices accepted by our own society. If our society accepts that a certain practice—such as slavery—is morally right, then as members of this society, we too must accept that practice as morally right, at least according to ethical relativism. For example, ethical relativism implies that it was wrong for Southern abolitionists to object to slavery, since slavery was accepted in Southern society before the Civil War. According to critics, then, the theory of ethical relativism implies that whatever most of one's society believes about morality is automatically correct and so such beliefs cannot be criticized.

Gives a Society's Moral Standards a Privileged Place

One way of thinking about these two kinds of moral standards is to adopt a framework called Integrative Social Contracts Theory (ISCT).[62] ISCT provides a useful framework for understanding how to deal with moral differences.

Assuming that there are hypernorms that apply to all societies, the distinction between them and microsocial norms that ISCT makes provides a useful way to think about the interplay between absolute moral norms that apply to all people everywhere, and local norms that differ from one society to another. We have argued that there are absolute moral norms that should apply everywhere; what these might be is a question that we will discuss in the next chapter.

Quick Review 1.10
Integrative Social Contracts Theory

- Hypernorms should apply to people in all societies.
- Microsocial norms apply only in specific societies and differ from one society to another.

Hypernorms and Microsocial Norms

According to the ISCT framework, there are two kinds of moral standards: hypernorms and microsocial norms.[63]

Interactive

Hypernorms: Part of a Social Contract

Hypernorms consist of those moral standards that should be applied to people in all societies. ISCT holds that it is useful to think of hypernorms as part of a social contract that all people have accepted, and to think of microsocial norms as part of a social contract that the members of a specific community have accepted. Examples of some hypernorms might be human rights principles and principles of justice that apply to all people in all communities.

Many critics reject the ISCT view that hypernorms should be thought of as part of a social contract that all reasonable people have accepted, while relativists reject the very idea that there are any absolute universal hypernorms. Nevertheless, the distinction between hypernorms and microsocial norms is a useful one.

Microsocial Norms: Applied with Consent of Community

Relationship Between Hypernorms and Microsocial Norms

1.4: Foundations of Moral Reasoning

OBJECTIVE: Explain the deep foundations and structure of moral reasoning

We have said that ethics is the study of morality and that a person begins to engage in ethics when he or she turns to look at the moral standards learned from family, church, friends, and society and begins asking whether these standards are reasonable or unreasonable and what these standards imply for the situations and issues we face. In this section, we examine more closely this process of examining one's moral standards and the reasoning process by which we apply our standards to the situations and issues we face. We begin by describing how a person's ability to use and critically evaluate moral standards develops in the course of a person's life, and then we describe some of the reasoning processes through which these moral standards are evaluated and used, and some of the ways they can go wrong.

1.4.1: Moral Development

Many people assume that our values are formed during childhood and do not change after that. In fact, a great deal of psychological research, as well as our own personal experience, demonstrates that as we mature, we change our values in deep ways. Just as people's physical, emotional, and cognitive abilities develop as they age, so too does their ability to deal with moral issues. In fact, just as identifiable stages of growth exist in physical development, the ability to make reasoned moral judgments develops in identifiable stages. As children, we are simply told what is right and what is wrong, and we obey so as to avoid punishment. As we mature into adolescence, these conventional moral standards are gradually internalized, and we start trying to live up to the expectations of family, friends, and surrounding society. Finally, as adults we learn to be critical about the conventional moral standards bequeathed to us by our families, peers, culture, or religion. We start to evaluate these moral standards and to revise them where we think they are inadequate, inconsistent, or unreasonable. We begin, in short, to engage in ethics and to develop moral principles that we feel are better and more reasonable than what we accepted earlier.

A good deal of psychological research shows that people's moral views develop more or less in this manner. Psychologist Lawrence Kohlberg, for example, who pioneered research in this field, concluded on the basis of over 20 years of research that a sequence of six identifiable stages exists in the development of a person's ability to deal with moral issues.[64] Kohlberg grouped these stages of moral development into three levels, each containing two stages. At each level, the second stage is the more advanced and organized form of the general perspective of that level.

DECODING KOHLBERG Kohlberg's theory is useful because it helps us understand how our moral capacities develop, and it reveals how we may mature in our understanding of our own moral standards. Research by Kohlberg and others has shown that, although people generally progress through the stages in the same sequence, not everyone progresses through all the stages. Kohlberg

Kohlberg's Stages of Moral Development

The sequence of the six stages can be summarized as follows.[65]

Interactive

Kohlberg's model defines three levels of moral development for the human being, beginning in early childhood. Each level contains two progressive stages through which a person passes as he or she gains maturity. The three levels, preconventional, conventional, and postconventional, reflect the child's passage from believing right and wrong is dictated by others to an adult's full integration of universal moral principles. We look at each stage from the eyes of a child, young person, and mature adult within that stage.

1 of 4 Previous Next

found that many people remain stuck at one of the early stages throughout their lives. Those who stay at the preconventional level continue to see right and wrong in the egocentric terms of avoiding punishment and doing what powerful authority figures say. Those who reach the conventional level, but never get past it, continue defining right and wrong in terms of the conventional norms and expectations of their social groups or of their nation and its laws. Further, those who reach the postconventional level and take a rational and critical look at the conventional moral standards they have been raised to hold will come to define right and wrong in terms of moral principles they have chosen because they are reasonable.

It is important to see that Kohlberg believes that the moral reasoning of people at the later stages of moral development is better than the moral reasoning of those at earlier stages. First, he claims, people at the later stages have the ability to see things from a wider and fuller perspective than those at earlier stages. The person at the preconventional level can see situations only from the person's own egocentric point of view; the person at the conventional level can see situations only from the familiar viewpoints of people in the person's own social groups; and the person at the postconventional point of view has the ability to look at situations from a universal perspective that tries to take everyone into account. Second, people at the later stages have better ways of justifying their decisions to others than those at earlier stages. The person at the preconventional level can justify decisions only in terms of how the person's own interests will be affected, and therefore justifications are ultimately persuasive only to the person. The person at the conventional level can justify decisions in terms of the norms of the group to which the person belongs, and so justifications are ultimately persuasive only to members of the person's group. Finally, the person at the postconventional level can justify his or her choices on the basis of moral principles that are impartial and reasonable and that any reasonable person can accept.

Quick Review 1.11
Kohlberg's Three Levels of Moral Development

- Preconventional stages: punishment and obedience orientation; instrumental and relative orientation
- Conventional stages: interpersonal concordance orientation; law and order orientation
- Postconventional stages: social contract orientation; universal principles orientation

CRITICISMS OF KOHLBERG: CAROL GILLIGAN'S VIEW Kohlberg's theory has been subjected to criticisms.[66] First, Kohlberg has been criticized for claiming that the higher stages are morally preferable to the lower stages. This criticism is surely right. Although the higher Kohlberg levels incorporate broader perspectives and more widely acceptable justifications, it does not follow that these perspectives are *morally* better than the lower ones. To establish that the higher stages are *morally* better will require more argument than Kohlberg provides. In later chapters, we will see what kind of reasons can be given for the view that the moral principles that define the later Kohlberg stages are morally preferable to the criteria used in the preconventional and conventional stages.

A second significant criticism of Kohlberg is one that arises from the work of psychologist Carol Gilligan. She argues that, although Kohlberg's theory correctly identifies the stages through which men pass as they develop, it fails to adequately trace out how women's morality develops.[67] Because most of Kohlberg's subjects were male, Gilligan has argued, his theory failed to take into account how women think about morality.

Gilligan claimed that there are "male" and "female" approaches to morality. Males, she argued, tend to deal with moral issues in terms of impersonal, impartial, and abstract moral principles—exactly the kind of approach that Kohlberg says is characteristic of postconventional thinking. However, Gilligan claimed, there is a second, female, approach to moral issues that Kohlberg's theory does not take into account. Females, Gilligan claimed, tend to see themselves as part of a web of relationships with family and friends. When females encounter moral issues, they are concerned with nurturing these relationships, avoiding hurt to others in these relationships, and caring for the well-being of others. For women, morality is primarily a matter of "caring" and "being responsible" for those with whom we have personal relationships. Morality is not a matter of following impartial principles. Gilligan claimed that the female approach to morality develops through stages that are different from those Kohlberg described. Moral development for women is marked by progress toward better ways of caring and being responsible for oneself and others with whom we are in relationship. In her theory, the earliest or preconventional level of moral development for women is one marked by caring only for oneself. Women move to a second or conventional level when they internalize conventional norms about caring for others and in doing so come to neglect themselves. As women move to the postconventional or most mature level, they become critical of the conventional norms they had earlier accepted, and they come to achieve a balance between caring for others and caring for oneself.

Is Gilligan right? Although additional research has shown that male and female moral development does not differ in the ways that Gilligan originally suggested, that same research has confirmed the claim that Gilligan has identified a way of thinking about moral issues that is different from the way that Kohlberg emphasizes.[68] Moral issues can be dealt with from a perspective of impartial moral principles or from a perspective of caring for persons and relationships, and these two perspectives are distinct. However, women as well as men sometimes approach moral issues from the perspective of impartial moral principles, and men as well as women sometimes approach moral issues from the perspective of caring for persons and relationships.[69] Although research on the "care perspective" that Gilligan described is still ongoing, it is clearly an important moral perspective that both men and women should take into account. We look more carefully at this care perspective in the next chapter, where we will assess its relevance to business ethics.

> ***Quick Review 1.12***
> **Gilligan's Theory of Female Moral Development**
> - For women, morality is primarily a matter of caring and responsibility.
> - Moral development for women is progress toward better ways of caring and being responsible.
> - Women move from a conventional stage of caring only for oneself, to a conventional stage of caring for others to the neglect of oneself, to a postconventional stage of achieving a balance between caring for others and caring for oneself.

THE GOAL OF REFLECTIVE UNDERSTANDING For our purposes, it is important to notice that both Kohlberg and Gilligan agree that there are stages of growth in our moral development. Both also agree that moral development moves from a preconventional stage focused on the self, through a conventional stage in which we uncritically accept the conventional moral standards of society around us, and on to a mature stage in which we learn to critically and reflectively examine how reasonable the conventional moral standards we earlier accepted are, and to develop more adequate standards of our own—both standards of caring as well as standards of impartiality.

We said earlier that you begin to engage in ethics when you begin to examine critically the moral standards you have accepted from family, friends, and society and ask whether these standards are reasonable or unreasonable. In terms of the stages of moral development that Kohlberg and Gilligan proposed, ethics begins when you move from a simple acceptance of the conventional moral standards that we absorb from society and try to critically and reflectively develop standards based on more adequate reasons and capable of dealing with a wider range of moral issues in a more adequate manner. The study of ethics is the process of developing our ability to deal with moral issues—a process that should enable you to acquire the more reflective understanding of "right" and "wrong" that characterizes the later postconventional stages of moral development. One of the central aims of the study of ethics is the stimulation of this moral development.

This point is important and one that should not be lost on the reader. The text and cases that follow are designed to be read and discussed with others—students, teachers, friends—to stimulate in ourselves the kind of moral development that we have been discussing. Engaged interaction and discussion of moral issues with the people around us develops our ability to move beyond a simple acceptance of the moral standards we absorb from family, peers, nation, or culture. By discussing, criticizing, and reasoning about the moral judgments that you and others make, you acquire habits of thinking and reasoning that you can use to decide for yourself the moral principles that you feel are reasonable because you have tested them in the heat of discussions with others.

The moral principles that are produced by the kind of analysis and reflection that are characteristic of the latter stages of moral development in both Kohlberg and Gilligan, then, are "better" but not because they come at a later stage. One set of moral principles is "better" than another only when it has been carefully examined and found to be supported by better and stronger reasons—a process that is enhanced through discussions with, and challenges from, other people. The moral principles that appear in the later stages of moral development, then, are better because and to the extent that they are the product of the kind of reasoned examination and discussion with others that tends to emerge as people improve their moral reasoning skills, grow in their understanding and knowledge of human life, and interact with others to develop a firmer and more mature moral perspective.

Kohlberg's (and Gilligan's) theory of moral development has been extended by psychologists who have looked at how moral development is related to self-identity and to the motivation to be moral. William Damon, who studies human development, found that "morality does not become a dominant characteristic of the self until middle adolescence."[70] This statement means that until middle adolescence, we tend not to see morality as an important part of who we really are. This point is significant because Damon also found that the more morality becomes part of who we are, the stronger our motivation to do what is morally right. In fact, there are "exemplary people" who have so united "self and morality" that when they do what is morally right, "rather than denying the self, they define it with a moral center [and so do not see] their moral choices as an exercise in self-sacrifice."[71] Psychologist Augusto Blasi has argued that part of the process of making morality part of who we feel we really are requires that we ask ourselves not only "What kind of person do I want to be?" but also "What kind of person should one be?"[72] Blasi points out that people have "reflexive desires, namely desires about their own desires," so another way of asking what kind of person we want to be is to ask, "What kind of desires do I want (or desire) to have?"[73] A major finding of research on moral identity is that it has an important influence on our moral reasoning. That is, in many situations, what we judge we should do depends on the kind of person we think we are. For example, if I see myself as an honest person, then I will generally decide I should be honest when tempted to lie. Ethicists have called this approach to ethics the *virtue* approach. Virtues are moral aspects of our character, such as honesty or courage. Reasoning based on the virtues is somewhat different from reasoning about moral principles. Exactly how it differs we will see when we discuss virtue ethics.

Quick Review 1.13

Research on Moral Identity Suggests . . .

- Morality is not an important part of the self until middle adolescence
- The more morality becomes part of the self, the stronger the motivation to be moral
- Judgments of right and wrong depend in part on the kind of person we think the self is, that is, on the virtues we think are part of one's self

ROLE OF EMOTIONS IN MORAL DECISIONS Ethics is not just a matter of logic, reasoning, and cognition. Our

Blowing the Whistle on JCPenney's "Fake Sales"

Individuals at various stages of moral development find themselves making choices as a company employee. In 2013, a JCPenney employee revealed publicly that the company was putting on "fake" sales. Let's examine the ethical considerations that surround the company's discounting practices, the employee's decision to go public about them, and the company's response.[74]

Interactive

Ron Johnson, CEO of JCPenney for only 17 months, was fired on April 8, 2013. Under Johnson, company sales revenues fell by $4.3 billion, the company lost $1.3 billion, and the stock lost half its value. Johnson had instituted a new policy of "fair and square every-day" low prices. Yet his every-day low price policy alienated JCPenney's traditional customers, who preferred periodic sales with heavily discounted merchandise. Johnson's replacement was Mike Ullman, who got rid of the every-day low price policy and brought back the sales promotions that customers loved. Under the new management, the sales promotions came along with a sales strategy.

On July 24, 2013, Bob Blatchford, a JCPenney employee, appeared on NBC's *Today* show and said that JCPenney was systematically raising its prices so it could later claim it was selling its goods at lower "sale" prices, a practice that could be illegal. Blatchford said, "I saw a lot of pricing teams going through the store, raising the prices, mostly doubling—towels and clothing. Then they would go on sale, and they wouldn't always go on sale for 50 percent off. Not only was it a fake sale, but they [customers] were actually paying more than they would have been previously."

Before revealing what the company was doing, Blatchford said, he had contacted senior executives about what was going on; although they said they would look into it, nothing changed. So even though he knew it might cost him his job, he had gone public. "I thought it was wrong and I thought the public had a right to know," he said.

1 of 6

Previous

Next

emotions and feelings play a central role in our moral decisions.[75] We noted earlier that one of the defining features of moral standards is that they are connected to special emotions and feelings, such as guilt, shame, compassion, and empathy. In addition, moral thinking is, and has to be, aided by our emotions. Of course, emotions can sometimes get in the way of clear thinking. However, we cannot engage in moral reasoning without the presence of our emotions.[76] People who have suffered damage to those parts of the brain that are responsible for producing emotions, and so who no longer experience emotions, become incapable of engaging in moral reasoning. They are still able to reason logically and can think abstractly, but they can no longer apply moral standards to their interactions with other people.

Phineas Gage, for example, was a well-liked and respected young man who one day at work happened to lean over an explosive charge while holding an iron rod. The charge exploded with such force that it instantly drove the rod upward through his cheek, behind his left eye, through the front part of his brain, and out at high speed through the top of his skull. Miraculously, he survived and recovered without any loss of his ability to walk, move, perceive, speak, think, remember, and reason. However, the front part of the brain plays a critical role in the production of emotions, so Gage lost most of his ability to experience emotions. With that loss, he also lost something else. According to witnesses, he became

> fitful, irreverent, indulging at times in the grossest profanity which was not previously his custom, manifesting but little deference for his fellows, impatient of restraint or advice when it conflicts with his desires, at times pertinaciously obstinate, yet capricious and vacillating, devising many plans of future operations, which are no sooner arranged than they are abandoned.[77]

With the loss of his emotions, the young Gage lost the ability to engage in the kind of moral thinking that previously enabled him to deal ethically with his fellow human beings. Many other people who, like Gage, have lost the ability to experience emotions also lost the ability to engage in moral reasoning. The link between moral reasoning and emotions has also been supported by studies of the parts of the brain that become active when we engage in moral reasoning. One of the parts of the brain that becomes active during moral reasoning is the part that is active when we experience emotions, the part of the brain that Gage lost.

How do our emotions and reasoning work together? Consider a simple example: our emotional reaction—empathy—to seeing a woman in front of us being treated badly. The sight of her mistreatment will suddenly focus our attention on her and how she feels and what is happening to her, driving other concerns out of our mind. The information we get from this focused perception might then make us feel sympathy. In turn, we may be moved to ask ourselves, and reason about, whether she deserves to be treated as she is being treated. If we judge that she does not deserve it and is being treated unjustly, we may then feel anger. The anger may drive us to think about what we can do to end the injustice, and, perhaps, move us to act. This is just a simple example of how our feelings and reasoning can work together. Moreover, it should be enough to suggest how some of our feelings can even give us information about what is going on around us. Empathy, for example, allows us to know what the victim is feeling and to even experience what she is experiencing. Emotions such as sympathy can make us recognize that we are faced with a situation that raises ethical issues and motivate us to try to understand and reason about what is happening. Anger can drive us to think about what we can and ought to do, and then motivate us to act.

A lot of the discussion that follows focuses on the reasoning processes upon which moral decisions are based. However, it is important to keep in mind that these reasoning processes are driven by, and suffused with, emotions and feelings. Reasoning about ethics is important, but without emotions we would be like Gage: unable to become focused on and concerned about ethics and no longer moved to engage in moral reasoning about ourselves and those around us.

1.4.2: The Structure of Moral Reasoning

We have used the term moral reasoning repeatedly. What is its exact definition?

> ***Moral reasoning* refers to the reasoning process by which human behaviors, institutions, or policies are judged to be in accordance with or in violation of moral standards.**

Moral reasoning always involves three components:

1. An understanding of our moral standards and what they require, prohibit, value, or condemn
2. Evidence or information about whether a particular person, policy, institution, or behavior has the features that these moral standards require, prohibit, value, or condemn
3. A conclusion or moral judgment that the person, policy, institution, or behavior is prohibited or required, right or wrong, just or unjust, valuable or condemnable, and so on.

In the following example of moral reasoning, the author offers reasons for the moral judgment that some U.S. social institutions are unjust:

> Blacks and other minorities live in our society and a disproportionate number fight the wars that keep our society safe: 20 percent of the military is black yet only 11 percent of the U.S. is black. Minorities take the dirty jobs (30 percent of cleaners are Hispanics, who are 7 percent of the workforce) and contribute cheap labor (44 percent of farm workers are Hispanic) that lets us live and eat disproportionately well. Yet minorities do not get society's benefits. Twenty-six percent of blacks and 25 percent of Hispanics fall below the poverty line compared to 12 percent of whites. Black and Hispanic infant mortality is double that of whites. Blacks are 11 percent of the U.S. workforce, but hold only 7 percent of all management positions and 6 percent of all engineering jobs. Discrimination that prevents minorities from getting out of their society what they contribute is unjust.[78]

In this example, the author has in mind a moral standard that he sets out at the end of the paragraph: "Discrimination that prevents minorities from getting out of their society what they contribute is unjust." The earlier part of the paragraph is devoted to citing factual evidence showing that U.S. society exhibits the kind of discrimination this moral principle condemns. The author's moral judgment about U.S. society is not explicitly stated, but it is obvious enough: U.S. society is unjust. So this example of moral reasoning has the usual components:

1. A moral standard on which the moral judgment is based
2. Evidence or factual information about the institution that is being judged
3. A moral judgment or conclusion that is supposed to be drawn from (1) and (2)

Schematically, then, moral or ethical reasoning generally has the kind of structure indicated in Figure 1.1.[79]

Quick Review 1.14

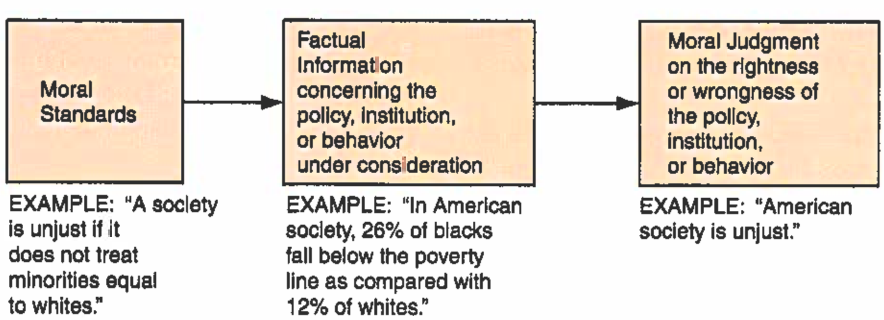
Psychological Research on Moral Reasoning

- It suggests that emotions are necessary for moral reasoning.

EXPLICIT AND NONEXPLICIT STATEMENTS Sometimes one of the three parts of moral reasoning is not expressed. In the example of moral reasoning we have just reviewed, the conclusion was not explicitly stated because it was so obvious. More often, however, people do not explicitly state the moral standards on which their moral judgments are based, and we may have to search for them. For example, a person might say, "U.S. society is unjust because it allows 26 percent of blacks to fall below the poverty line, while only 12 percent of whites are below the poverty line." Here the moral judgment is "U.S. society is unjust" and the evidence is "it allows 26 percent of blacks to fall below the poverty line while only 12 percent of whites are below the poverty line." But what is the moral standard on which this judgment is based? The unspoken statement of moral standard has to be something like: "A society is unjust if it allows a higher percentage of people of one race to be poorer than those of another race." How do we know? Because the factual information that "26 percent of blacks fall below the poverty line, while 12 percent of whites are below the poverty line" can serve as evidence for the moral judgment that U.S. society is unjust only if we accept the moral standard that "a society is unjust if it allows a higher percentage of people of one race to be poorer than those of another race." Without this moral standard, the information would have no logical relation to the conclusion and so could not be evidence for the conclusion. So to uncover the unspoken moral standards someone is using when he or she makes a moral judgment, we have to trace his or her reasoning back to its moral assumptions. This involves asking the following questions:

1. What factual information does the person think is evidence for his or her moral judgment?
2. What moral standards are needed to logically relate this factual information to his or her moral judgment?[80]

Figure 1.1 Structure of Moral Reasoning



One reason we do not make our moral standards explicit in our moral reasoning is that we generally assume that these moral standards are obvious. So we put most of our efforts into looking at whether there is evidence that a given situation does or does not violate our (unspoken) moral standards. However, we put little or no effort into examining the (unspoken) moral standards on which our judgments rely. Yet if we do not make our moral standards explicit, we can end up basing our judgments on moral standards we do not even realize we hold. Or, worse, we may rely on standards that we would reject if we explicitly thought about them. Our unspoken moral standards might be inconsistent, they might be unreasonable, or they might have implications we do not accept. In the example of moral reasoning, we have been discussing the unspoken moral standard: A society is unjust if it allows a higher percentage of people of one race to be poorer than those of another race. Now that we have made this standard explicit, we might not be so sure it is right. For example, some people have suggested that the inequalities in the percentages of each race that are poor are the result of different natural characteristics the two races possess. If they are the result of natural differences, then do such inequalities show that a society is unjust? We may reject the suggestion that inequalities are the result of natural racial differences, but the suggestion should at least lead us to look more carefully at whether the moral standards we are using are justified. Making explicit the moral standards upon which our moral judgments are based, then, is crucial to understanding whether the moral standards that underlie our reasoning are really justified.

The moral standards upon which adults base their moral judgments are usually a lot more complex than these simple examples suggest. A person's moral standards usually include qualifications, exceptions, and restrictions that limit their scope. Also, they may be combined in various ways with other important moral standards. Still, the general method of uncovering people's unspoken moral standards remains roughly the same, however complex their standards are. We need to ask: What general moral standards are needed to relate this person's factual evidence to the moral judgment he or she is making?

Hopefully, this explanation of moral reasoning has not suggested that it is always easy to separate factual information from moral standards in moral reasoning—nothing could be further from the truth. In practice, the two are sometimes intertwined in ways that are hard to disentangle. Also, there are several theoretical difficulties in trying to draw a precise line separating the two.[81] Although the difference between the two is usually clear enough for practical purposes, the reader should be aware that sometimes the two cannot be clearly distinguished.

Quick Review 1.15
Moral Reasoning Involves . . .

- The moral standards by which we evaluate things
- Information about what is being evaluated
- A moral judgment about what is being evaluated

EVALUATING MORAL REASONING Not all moral reasoning processes are equal. Ethicists use three main criteria to evaluate the quality of a piece of moral reasoning.[82]

When inconsistencies between one's moral standards are uncovered, one (or both) of the standards has to be changed. Following our example on whether to obey an employer, I might decide that orders of employers have to be obeyed except when they threaten human life. Notice that, to determine what kinds of modifications are called for, one has to examine the reasons one has for accepting the inconsistent standards and weigh these reasons to see what is more important and worth retaining and what is less important and subject to modification. In this example, for instance, I may have decided that the reason that employee loyalty is important is that it safeguards property, but the reason that the refusal to endanger people is important is that it safeguards human life. Human life, I then decide, is more important than property. This sort of criticism and adjustment of one's moral standards is an important part of the process through which moral development takes place.

There is another kind of consistency that is perhaps even more important in ethical reasoning.

Consistency also refers to the requirement that one must be willing to accept the consequences of applying one's moral standards consistently to all persons in similar circumstances.[83] This consistency requirement can be phrased as follows.

Suppose that "doing A" refers to some type of action, and "circumstances C" refers to the circumstances in which someone carried out that action. Then, we can say the following:

> If you judge that one person is morally justified (or unjustified) in doing A in circumstances C, then you must accept that it is morally justified (or unjustified) for any other person to perform any act relevantly similar to A, in any circumstances relevantly similar to C.

That is, you must apply the same moral standards to the action of one person in one situation that you applied to another that was relevantly similar. (Two actions or two circumstances are "relevantly similar" when all those factors that have a bearing on the judgment that an action is right or wrong in one case are also present in the other.) For example, suppose that I judge that it is morally permissible for me to fix prices because I want the high profits. If I am going to be consistent, I have to hold that it is morally permissible for my *suppliers* to fix prices when they want high

Criteria for Evaluating Moral Reasoning

Moral reasoning must be logical; the evidence used to support it must be accurate, relevant, and complete, and moral standards must be consistent.

Interactive

Moral Reasoning Must Be Logical

First, moral reasoning must be logical. This means that when we evaluate a person's moral reasoning, we should first make the person's unspoken moral standards explicit. We should also understand what evidence the person offers to support his or her conclusion, and know exactly what the person's conclusion is. Then, we can determine whether the person's moral standards together with the evidence he or she offers logically support his or her conclusion.

Factual Evidence Cited Must Be Accurate, Relevant, and Complete

Moral Standards Must Be Consistent

profits. If I am not willing to consistently accept the consequences of applying to other, similar persons the standard that price fixing is morally justified for those who want high prices, I cannot rationally hold that the standard is true in my own case.

The consistency requirement is the basis of an important method of discovering that we need to change or modify our moral standards: the use of counterexamples or hypotheticals. If we are wondering whether a moral standard is acceptable, we can often test it by seeing whether we are willing to accept the consequences of applying that standard to other similar hypothetical cases. For instance, suppose that I claim it was morally justified for me to lie to protect my own interests because "it is always morally justified for a person to do whatever will benefit himself or herself." We can evaluate whether this principle is really acceptable by considering the hypothetical example of an individual who knowingly injures me or someone I love, and who claims he or she was morally justified because the injury was to his or her own benefit. If, as is likely, I do not think another person would be morally justified in injuring me or someone I love simply because it benefits him or her, then I need to qualify or reject the principle that "it's always morally justified for a person to do whatever will benefit himself or herself." I have to qualify or reject it because consistency requires that if I really accept the idea that I am justified in injuring someone when it benefits me, then I would have to accept that anyone else would be justified in injuring me whenever it benefits him or her. The point is that hypothetical examples can be used effectively to show that a moral standard is not really acceptable and so must be rejected or at least modified.

Quick Review 1.16
Moral Reasoning Should . . .

- Be logical
- Rely on evidence or information that is accurate, relevant, and complete
- Be consistent

1.4.3: Impediments to Ethical Behavior

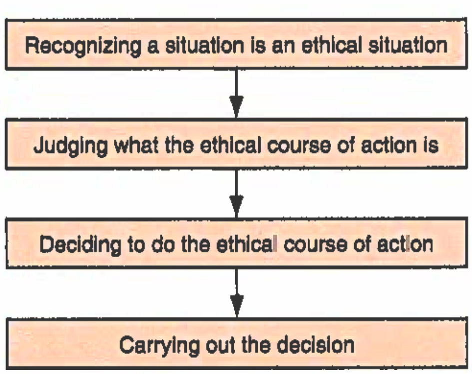
We have spent some time discussing what moral reasoning is. However, moral reasoning is only one of the processes that lead up to ethical or unethical behavior. Studies of the main steps that lead up to ethical or unethical behavior have converged on a view that was first proposed by moral psychologist James Rest. He found that four main steps precede moral action:

1. We recognize or become aware that we are faced with an ethical issue or situation (i.e., an issue or situation to which we can respond ethically or unethically).
2. We make a judgment about what the ethical course of action is.
3. We form an intention or decision to do or not do what we judge is right.
4. We carry out or act on the intention or decision we have made.[84]

These four steps (see Figure 1.2) do not have to occur in sequence. In fact, they may all occur simultaneously. Moreover, it is not always easy to distinguish them from each other, especially when they are simultaneous.

Notice that moral reasoning is the second step in the process. That is, moral reasoning is involved when we make a judgment about what the ethical response to an issue or situation should be. Moral reasoning, as we will see, is not the only way to make a decision about what the right thing to do is. Based on Rest's model, we are going to look at four main steps that lead to ethical (or unethical) behavior. We will also look closely at several impediments that can influence these steps. Understanding these impediments will perhaps help you deal with them effectively when you encounter them in your own life.

Figure 1.2 The Four Steps Leading to Ethical Behavior



STEP ONE: RECOGNIZING AN ETHICAL SITUATION Every day we encounter situations that raise ethical issues. Before we can even start thinking about those issues, we must first recognize that the situation we have encountered is one that calls for ethical reasoning. We can see or categorize a situation in many different ways. To deal with each type of situation, we use ways of thinking that are appropriate for that type of situation. For example, we can see a situation as being a "business" situation that calls for using business rules and business reasoning. Or we can see it as a "legal" situation or a "family" situation. When a situation is recognized as a *business* situation, we may start thinking about what we can do to save money or about how our actions will affect revenues, sales, or profits. When a situation is seen as a *legal* situation, we may start thinking about the laws or regulations that apply to the situation. We may ask whether this or that course of action would be legal and what we need to do to comply with the law. When we see a situation as a *family* situation, we may start thinking of what a parent, son, daughter, or husband should do in this kind of situation. We can use the word *frame* to refer to the type of situation we think we have encountered *and* the kind of thinking that should be used to deal with that type of situation. Most situations, of course, will fall within several frames. A business situation can also be a personal one, and a legal situation can also involve family.

Besides business, legal, and personal frames, we also apply moral or ethical frames to situations. When we "frame" a situation as a moral or ethical situation, we recognize it as one that raises ethical questions or issues, and we start thinking about it in moral ways. In other words, we start using moral reasoning and moral standards to deal with it. Situations that we correctly frame as "ethical" will ordinarily also fall within some other frame, such as a legal or business frame; that is, a legal or business situation can also be an ethical one. What are the features of situations that lead us to frame them as ethical situations? Some psychologists have argued that we can and do use six criteria to decide whether to frame a situation as an ethical situation calling for ethical reasoning.[85] Simplified somewhat, the six criteria are as follows:

1. Does the situation involve the infliction of serious harm on one or more people?
2. Is the harm concentrated on its victims so that each victim will, or already has, sustained a significant amount of harm?

3. Is it likely that the harm will occur (or has actually occurred)?
4. Are the victims proximate (i.e., close or accessible to us)?
5. Will the harm occur fairly soon (or has it already occurred)?
6. Is there a possibility that the infliction of harm violates the moral standards we or most people accept?

The more of these questions that we answer affirmatively, the more likely we are to frame the situation as an ethical one calling for ethical reasoning. Notice that we can use these criteria to determine whether we *should* frame a situation as an ethical one. That is, we can deliberately use these six questions to determine whether the situation before us is one we should be treating as an ethical situation. The more of these questions that we answer affirmatively the more likely that we *should* frame the situation as ethical. We can sharpen our ability to recognize ethical situations, then, by keeping in mind that they involve harm that is concentrated, likely, proximate, imminent, and that possibly violates our moral standards.

A number of impediments can get in the way of recognizing an ethical situation. Albert Bandura identified eight forms of *moral disengagement* that can prevent us from recognizing or becoming aware that a situation is an ethical situation.[86] (Alternatively, these can be described as patterns of thought we can more or less consciously use to keep ourselves from that recognition or awareness.)

The eight forms of moral disengagement are obstacles that, without our knowledge, can prevent us from framing the situation we are in as an ethical situation. In that way, they can keep us from thinking about the situation in moral or ethical terms. However, we can also deliberately use these forms of moral disengagement to avoid framing a

Forms of Moral Disengagement

Eight main forms of moral disengagement function as impediments to framing a situation as ethical.

Interactive

1. Euphemistic Labeling

We can use euphemisms to change or veil the way we see a situation we have encountered. Instead of thinking about the fact that we are firing people, for example, we try to think of what we are doing as "downsizing," "rightsizing," or "outsourcing." The U.S. military refers to the killing of civilians as "collateral damage." Politicians have referred to torture as "enhanced interrogation techniques." They have also referred to lies as "misstatements," "technically inaccurate statements," or "less than precise words." By using such euphemisms, we change how we see the situation. Instead of framing it as an ethical situation, we frame it to ourselves as only a business, a military, or a political one.

2. Rationalizing Our Actions

3. Diminishing Comparisons

4. Displacement of Responsibility

5. Diffusion of Responsibility

6. Disregarding or Distorting the Harm

7. Dehumanizing the Victim

8. Redirecting Blame

situation as an ethical situation. We might more or less unconsciously think that seeing a situation in ethical terms might force us to admit that we are doing something wrong. As I am sure you have already realized, all of these forms of disengagement are common occurrences in our ordinary daily human life. They are just as common in business where they are invoked by employees, especially when their company is discovered to be engaged in unethical behavior. Being aware of these obstacles may help you avoid them in your own future work life.

Quick Review 1.17
On Recognizing a Situation as Ethical

- Doing so requires framing it as one that requires ethical reasoning.
- A situation is likely to be seen as ethical when it involves serious harm that is concentrated, likely, proximate, imminent, and potentially violates our moral standards.
- Obstacles to recognizing a situation is ethical include euphemistic labeling, rationalizing our actions, diminishing comparisons, displacement of responsibility, diffusion of responsibility, disregarding or distorting the harm, dehumanizing the victim, and redirecting blame.

STEP TWO: JUDGING WHAT THE ETHICAL COURSE OF ACTION IS Before we make a judgment about a situation, we need reliable information about it. Our attempts to gather such information, however, can be affected by biases that prevent us from getting the kind of information we need. A bias is an assumption that distorts our beliefs, perceptions, and understanding of a situation.

There are, then, a number of biases about ourselves, about others, and about the world around us that lead us to mistaken beliefs about the situations we encounter. If we are not aware of the influence of such biases, we may assume that our decisions are based on solid information. In fact, we may be basing our judgments on distortions or falsehoods. Perhaps even worse, these biases may make us confident that we are right when in fact we are completely wrong.

Quick Review 1.18
A Judgment about the Ethical Course of Action . . .

- Requires moral reasoning that applies our moral standards to the information we have about a situation
- Requires realizing that information about a situation may be distorted by biased theories about the world, about others, and about oneself

STEP THREE: DECIDING WHETHER TO DO WHAT IS RIGHT Even if I know what the morally right course of action is, I may not decide to do what is right. People often choose unethical behavior even though they know it is unethical, or they fail to commit to what is ethical although they know it is the ethical course of action. That is, in fact, the essential nature of evil: knowing something is wrong but deciding to do it anyway. A number of factors influence whether we decide to do what we know is right, or decide instead to do what we know is wrong.

People's decisions to do what is ethical are greatly influenced by their surroundings. Particularly important in business is a person's organizational surroundings, which includes the ethical climate and the ethical culture of the organization.[87]

Ethical climate refers to the beliefs an organization's members have about how they are *expected* to behave. In organizations with "egoistic" climates, employees feel they are expected to be self-seeking and so they are. In organizations with "benevolent" climates, employees feel they are expected to support their stakeholders. These include employees, customers, suppliers, stockholders, and the community. Not surprisingly, members of organizations with egoistic climates find it harder to commit to doing what they know is right, than members of organizations with benevolent climates.

Ethical culture refers to the kind of behavior an organization *encourages or discourages* by repeated use of examples of appropriate behavior, incentives for ethical behavior, clear rules and ethics policies, rewards for exemplary conduct, stories of notable ethical actions, etc.

While ethical climate refers to employee beliefs about an organization's ethical expectations, ethical culture refers to the ways an organization encourages or discourages ethical behaviors. The culture of some organizations encourages and rewards only business objectives with no attention to ethics. The culture of other organizations encourages and rewards ethical behavior and not just bottom-line results. Organizations with a strong ethical culture make it easier to decide to do what is right. Organizations with strong business cultures can make it harder to decide to do what is right.

Organizations can also generate something called "moral seduction." **Moral seduction** refers to the subtle pressures that can gradually lead an ethical person into decisions to do what he or she knows is wrong. A team of psychologists found, for example, the following:

> Moral seduction occurs one step at a time. For example, in one year, an auditor might decline to demand that the client change an accounting practice that is at the edge of permissibility. The next year, the auditor may feel the need to justify the previous year's decision and may turn a blind eye when the client pushes just past the edge of permissibility. The following year, the auditor might endorse accounting that clearly violates GAAP rules in order to avoid admitting the errors of the past two years and in the hope that the client will fix the problem before

Three Forms of Bias

Several forms of bias have been studied, and these are usually put into three groups.[88, 89, 90]

Interactive

Biased Theories about the World

Bias Theories about Others

Bias Theories about Oneself

Perhaps not surprisingly, research has shown that our own views of ourselves tend to be flawed. We tend to believe (unrealistically) we are more capable, insightful, courteous, honest, ethical, and fair than others. As well, we are overconfident about our ability to control random events. Most of us believe we deserve any rewards, bonuses, or pay increases that we receive for the work we do. We believe we deserve them because we believe we contribute more to the organization's success than others in similar positions. We tend to be overly optimistic about our future because we overestimate the likelihood that we will experience good events. At the same time, we underestimate the likelihood that we will experience bad events.

Example

For example, people believe that they are less likely than others to experience divorce, alcoholism, or a serious auto injury. Most of us also assume that we are immune to risk. Because they believe they are immune to risks, managers sometimes commit their organization to risky courses of action. BP's managers, for example, decided not to invest in safety measures, thereby committing the company to a risky future. That decision led to the disastrous 2010 Gulf oil spill. BP's managers seemed to have had a false confidence that matters could not go wrong while they were in charge.

We also tend to be overly confident about what we think we know. In a series of psychology experiments, people were asked several factual questions (e.g., "Which city is farther north, Rome or New York?"). Most regularly overestimated the probability that

the next year's audit. By the fourth year, the auditor and client will both be actively engaged in a cover-up to hide their past practices.[91]

In an organization in which moral seduction occurs, a new employee can gradually be drawn into accepting unethical practices. First, the employee may be asked to do something that is only slightly questionable, perhaps as a favor or to be a "team player." Next, the employee may be asked to go along with something just slightly more serious. Finally, the employee may find himself deeply involved in the unethical practices of the organization. The employee may be so compromised by his past actions that he feels he has to continue his involvement. Moral seduction can lead a person to decide to do what the person knows in his heart is unethical and should not be done.

Quick Review 1.19
Influences on Deciding to Do What Is Ethical

- The climate of an organization
- The culture of an organization
- Moral seduction

STEP FOUR: CARRYING OUT ONE'S DECISION Good intentions do not always result in good behavior, since we often fail to do what we intended to do. I may be genuinely committed to doing what is right, but when the time comes to act, I may lack the determination to do what I intended.

Several impediments, then, can trip up a person even at the fourth and final stage of the road to ethical behavior, which is the stage of actually carrying out a decision to do what is right. Three such impediments are people's ego strength, their views about whether they are in control of

Factors That Influence a Person's Action

What factors influence whether a person acts on the moral decisions he or she has made?[92, 93, 94]

Interactive

Ego Strength | Locus of Control | Response to Authority

There is the personal or individual factor that Greek philosopher Aristotle called "weakness of will" and its opposite, "strength of will." Strength of will refers to our ability to regulate our actions so that we resolutely do what we know is right even when powerful emotions, desires, or social pressures urge us not to. Weakness of will refers to the inability (or low ability) to regulate our actions so that we fail to do what we know is right when emotions, desires, or external pressures tempt us. Strength of will is similar to what some psychologists call "ego strength." This is the ability to be resistant to impulses and to follow one's own convictions. Some people have a high level of ego strength, while others have low levels. Aristotle argued that a person develops weakness of will by repeatedly giving in to the temptation to overindulge one's appetites and emotions. On the other hand, by repeatedly resisting the temptation to overindulge one's appetites and emotions, a person develops strength of will.

what happens to them, and their willingness to obey authority figures. Other impediments to doing what we have decided is right can only be mentioned here. They include the pressure our peers put on us to do what we know is wrong, fears of the personal costs of doing what we know is right, and limited self-control or limited impulse-control.

Impediments, then, can hamper any of the four steps that should lead up to ethical behavior which are as follows:

- recognizing an ethical issue
- making a judgment about the right thing to do
- forming the intention to do what we judge to be right
- carrying out our intention

We have described these impediments so that armed with the knowledge of what they are and how they can impede you, you will be better equipped to overcome them.

1.5: Moral Responsibility and Blame

OBJECTIVE: Assess the factors that define and refine the concept of moral responsibility

So far our discussion has focused on judgments about right and wrong and good and evil. Moral reasoning is sometimes directed at a different kind of judgment: determining whether a person is morally responsible for an injury or for a wrong.[95] A judgment about a person's moral responsibility for wrongdoing is a judgment that the person acted intentionally and so should be blamed or punished, or should pay restitution.

The kind of moral responsibility we are discussing here should not be confused with a second but distinct kind of use of the term. The second use of the term "moral responsibility" is sometimes used to mean "moral duty" or "moral obligation."

Ethical Application

BFGoodrich and Moral Responsibility

In the case of BFGoodrich's compact aircraft brakes, when we say, "Vandivier had a moral responsibility not to lie," we are using the words "moral responsibility" to mean "moral obligation." This is *not* the kind of moral responsibility that we are talking about here. The kind of moral responsibility we are discussing is the kind that means a person is *to blame* for something. Suppose we say, for example, "Vandivier is morally responsible for the deaths of any pilots who crashed when trying to land the A7-D plane." Then we are using the words "is morally responsible" to mean "is to blame." It is this second meaning of moral responsibility that we are talking about here.

Getting clear about what moral responsibility (i.e., being to blame) involves is important for several reasons:

1. Most important, determining who is morally responsible for a wrong allows us to identify who should fix the wrong. If, for example, you are morally responsible for harming your neighbor, then you are the one who should compensate your neighbor for his or her losses.
2. Determining who is morally responsible for a wrongdoing allows us to ensure that we do not mistakenly punish, penalize, or blame an innocent person. Most businesses, for example, have complex rules against "conflicts of interest." Employees sometimes break these rules without realizing what they are doing. It would be a mistake to punish such employees, since they really were not morally responsible for what they did.
3. Determining you are not morally responsible for someone's injury helps to ensure you do not suffer shame or guilt when you should not be feeling these emotions. For example, if you inflict a bad injury on a fellow worker while operating a machine, you will probably feel pretty bad about what happened. However, you should feel guilty or ashamed only if you are morally responsible for the injury. If, say, the injury was an unavoidable accident, then you are not morally responsible and should not feel guilty or ashamed.
4. Knowing exactly what moral responsibility is may help keep us from wrongly trying to rationalize our conduct. When a person realizes that her actions resulted in serious injuries to others, she may not want to accept her responsibility for what she did. She may then try to escape responsibility for her actions by coming up with rationalizations that she can use to deceive herself and others. Understanding what moral responsibility involves, then, can help us avoid rationalizations and self-deception.

1.5.1: When Is a Person Morally Responsible?

People are not always morally responsible for the injuries they inflict on others. For example, a person, who injures someone by accident is "excused" from any blame. So when is a person morally responsible—or to blame—for an injury? We can summarize the traditional view in this way: a person is morally responsible for an injury when the person *caused* the injury and did so *knowingly* and *of his or her own free will*. However, this view ignores the fact that people are sometimes responsible for injuries that they did not cause, but which they could and should have prevented. That is, they are morally responsible for their omissions when they had a duty to act. So a more accurate—but more complicated—way of characterizing moral responsibility is to consider the necessary conditions that underlie it.

A person is morally responsible for an injury or a wrong if

1. The person caused or helped cause it, or failed to prevent it when he or she could have and should have
2. The person did so knowing what he or she was doing
3. The person did so of his or her own free will

For shorthand purposes, we will refer to the three conditions of moral responsibility as follows:

1. Causality
2. Knowledge
3. Freedom

The absence of any of these three conditions will completely eliminate a person's responsibility for an injury and so will fully "excuse" a person from any blame for the injury.[96] For example, several asbestos manufacturers have been judged responsible for the lung diseases suffered by some of their workers.[97] The judgment was based in part on the finding that the manufacturers should have warned their workers of the known dangers of working with asbestos. Yet they knowingly failed to perform this duty, and the lung diseases were a foreseen result of their failure to warn. In their defense, some asbestos manufacturers denied the *causality* requirement. They claimed that the lung injuries suffered by their workers were not caused by working with asbestos, but by smoking. Other manufacturers denied the *knowledge* requirement. They claimed that they did not know that conditions in their plants would cause lung cancer in their workers. Still others denied the *freedom* requirement. They said that they were not free to prevent the injuries because they had tried to get their workers to wear protective masks, but the workers refused. So, they argued, the workers were injured because of circumstances that the manufacturers could not change. Most courts did not accept any of these claims. The point here is that if any of these claims were true, then the manufacturers would not have been morally responsible for the lung diseases of their workers.

CONDITIONS FOR MORAL RESPONSIBILITY It is important to understand these three conditions well enough to be able to judge on your own whether a party (you or someone else) was morally responsible for something. Let us begin by examining the first requirement for moral responsibility. This is the requirement that the person must either cause the injury or wrong or else must fail to prevent it when he or she could and should have done so. In many cases, it is easy to determine whether a person's actions "caused" an injury or a wrong (such actions are *commissions*). Yet this is not so easy when a party does not cause an injury but merely fails to prevent it (such failures are *omissions*).

Ethical Application

Nike in Developing Countries

Nike, the athletic shoe and apparel company, was long at the center of a controversy over its responsibility for the mistreatment of the workers who make its shoes. Nike does not actually manufacture any of the athletic shoes it sells. Instead, Nike designs its shoes in Seattle, Washington, and then pays other companies in developing countries to make the shoes according to its designs. It was these foreign supplier companies (in China, Indonesia, India, etc.) that directly mistreated and exploited their workers. Nike claimed that it was not morally responsible for this mistreatment because the suppliers caused the injuries, not Nike. However, critics responded that although Nike did not directly cause the injuries, the company could have prevented them. The company had the ability, they argued, to require its suppliers to treat their workers humanely. If it is true that Nike had the ability to prevent the injuries, and should have done so, then the company met the first condition for moral responsibility. Yet if Nike was truly powerless to prevent these injuries—if Nike had no control over the actions of its suppliers—then it did not meet the first condition. In that case, Nike was not morally responsible for the way the workers were being treated.

Notice that the first condition says that people are morally responsible for an injury when they failed to prevent it, *only if* they "could have and should have" prevented it. This qualification is necessary because people cannot be held morally responsible for all the injuries they know about and fail to prevent. We are not morally responsible, for example, for failing to save all the starving people we learn about in the news, even if we could have saved some of them. If we were morally responsible for all these deaths, then we would all be murderers many times over, and this seems wrong. So a person is morally responsible for failing to prevent an injury only when the person has an obligation or duty to prevent that particular injury. Such an obligation generally requires some sort of special relationship to the injury or the injured party. For example, suppose I know that I am the only person near enough to save a drowning child and I can do so easily. Then my special physical relationship to the child creates an obligation for me to save the child. So I would be morally responsible for the child's death if I failed to prevent it. Or suppose I am a police officer on duty and see a crime that I can prevent. Then, because it is my job to prevent such crimes, I have a duty to prevent this crime and so am morally responsible if I fail to do so. Employers, likewise, have a special obligation to prevent employee work injuries. They are morally responsible for any foreseen work injuries they could have prevented.

KNOWLEDGE AND IGNORANCE The second condition for moral responsibility is this: the person must know what he or she is doing. This means that if a person is ignorant of the fact that his or her actions will injure someone else, then he or she cannot be morally responsible for that injury. However, ignorance does not always excuse a person. One exception is when a person deliberately stays ignorant of a certain matter to escape responsibility. Suppose, for example, that Nike managers told their suppliers that they did not want to know what was going on in their factories. Then their ignorance would not eliminate their moral responsibility for whatever mistreatment they could have prevented. A second exception is when a person negligently fails to take the necessary steps to find out about something he or she knows is important. Take, for example, a manager in an asbestos factory who has good reason to suspect that asbestos may be dangerous. However, the manager fails to become informed on the matter out of laziness. The manager then cannot later plead that his ignorance absolves him of any responsibility for his workers' injuries. In general, when a person causes his or her own ignorance, that ignorance will not eliminate his or her responsibility for a wrong.

There are two kinds of ignorance. A person can be ignorant of either the relevant *facts* or the relevant *moral standards*. For example, I may be sure that bribery is wrong (a moral standard). However, I may not know that by tipping a customs official I am bribing him or her into canceling the import fees I owe (a fact). Or I might be genuinely ignorant that bribing government officials is wrong (a moral standard). However, I may know that by tipping the customs official, I am bribing him or her into reducing the fees I owe (a fact).

Ignorance of *fact* eliminates moral responsibility because a person cannot be responsible for something that he or she cannot control.[98] Because people cannot control matters of which they are ignorant, they are not morally responsible for such matters. Negligently or deliberately created ignorance is an exception to this principle because such ignorance can be controlled. Insofar as we can control the extent of our ignorance, we become morally responsible for it and so also for its injurious consequences. Ignorance of the relevant *moral standards* generally also removes responsibility. It eliminates a person's responsibility because one is not responsible for failing to meet obligations of whose existence he or she is genuinely ignorant. Yet if our ignorance of moral standards is due to choosing not to know those standards, we are responsible for our ignorance and its injurious consequences.

The third condition for moral responsibility is that the person must act of his or her own free will. A person acts of his or her own free will when the person acts deliberately or purposefully and is not forced to act by some uncontrollable mental impulse or external force. In other words, a person acts of his or her own free will when he or she is not forced to act by some internal or external force over which he or she has no control. A person is not morally responsible, for example, if he or she causes an injury because he or she lacked the power, skill, opportunity, or resources to prevent the injury. A person is also not morally responsible when he or she is physically forced to do something that injures another person. Nor is a person morally responsible when his or her mind is so psychologically impaired that he or she cannot control his or her actions. An employee, for example, may injure a fellow worker when a machine he thought he knew how to operate suddenly swings out of his control. A manager who is highly stressed may be so overcome by rage at a subordinate that she cannot control her actions. An engineer who is part of a committee may be unable to prevent the other committee members from making a decision that the engineer feels will result in injury to other parties. In all of these cases, the person is not morally responsible for the wrong or the injury that may result. The person is not responsible because he or she did not deliberately choose the action or was forced to act as he or she did. Mental impairments or external forces eliminate a person's responsibility. They eliminate responsibility because a person cannot be morally responsible for something over which the person had no control.

Thus, three circumstances completely eliminate a person's moral responsibility for an action:

1. The person did not cause the action.
2. The person did not know what he or she was doing.
3. The person did not act freely.

Quick Review 1.20
When a Person Is Morally Responsible for an Injury

- The person caused or helped cause the injury, or failed to prevent it when he or she could and should have.
- The person did so knowing what he or she was doing.
- The person did so of his or her own free will.

1.5.2: Mitigating Factors

Besides the three circumstances that *eliminate* responsibility, three mitigating factors can *reduce* one's responsibility, including the following:

1. Circumstances that minimize but do not completely remove a person's involvement in an act (these affect the degree to which the person *caused* the wrongful injury)
2. Circumstances that leave a person somewhat uncertain about what he or she is doing (these affect the person's *knowledge*)
3. Circumstances that make it difficult but not impossible for the person to avoid doing what he or she did (these affect the extent to which the person acted freely)

However, the extent to which these three factors reduce a person's responsibility for a wrong depends on a fourth factor: the seriousness of the wrong.

Quick Review 1.21
Moral Responsibility Mitigation

It Is Mitigated by . . .

- Minimal contribution
- Uncertainty
- Difficulty

It Is NOT Mitigated by . . .

- The cooperation of others
- Following orders

1.5.3: Moral Responsibility: Essential Points

It may be helpful to summarize the essential points of this somewhat long and complicated discussion of moral responsibility.

1. An individual is morally responsible for an injury when
   a. the person caused the injury or failed to prevent it when he or she could and should have done so
   b. the person knew what he or she was doing
   c. the person acted of his or her own free will
2. Moral responsibility is completely eliminated (excused) by the absence of any one of these three conditions: causality, knowledge, and freedom.

Factors That Reduce a Person's Responsibility for a Wrong

To clarify the mitigating factors, we will discuss each of them in turn.[99]

Interactive

Level of Contribution

Certainty or Uncertainty

Second, circumstances can produce uncertainty about a variety of matters. A person may be fairly convinced that doing something is wrong, yet may have doubts about some important facts. Or the person may have doubts about the moral standards involved or about how seriously wrong the action is.

Example

Suppose that a manager tells an office worker to carry proprietary information to a competitor. The office worker might feel fairly sure that doing so is wrong, yet may also have some genuine uncertainty about how serious the matter is. Such uncertainties can lessen the person's moral responsibility for the wrongful act.

Coercion or Threat

Seriousness of Wrong

3. Moral responsibility for a wrong or an injury is mitigated by the following factors:
   a. minimal contribution to the act (although minimal contribution does not mitigate if the person has a specific duty to prevent the wrong)
   b. uncertainty
   c. coercion or threat
   d. how serious the wrong is (the more serious the wrong, the less the other three factors mitigate)

Critics have contested whether all of the mitigating factors we have discussed above really affect a person's responsibility. Some have claimed that evil may never be done no matter what personal pressures are exerted on a person.[100] Other critics have claimed that I am as responsible when I refrain from stopping a wrong as I am when I perform the wrong myself. They have argued that *passively allowing* something to happen is morally no different from *actively causing* it to happen.[101] If these critics are correct, then mere passive involvement in something does not mitigate moral responsibility. Although neither of these criticisms seems correct, the reader should make up his or her own mind on the matter.

When we are accused of being responsible for some wrongdoing, either by others or by ourselves, we often resort to rationalization. We hope that the rationalization will somehow excuse what we have done (i.e., that it will eliminate or diminish our responsibility). However, unlike the three conditions of moral responsibility (causality, knowledge, and freedom), many rationalizations do not affect responsibility for wrongdoing. Some popular rationalizations that we ourselves may use include the following:

> "Everybody does it!" "There's no rule against it!" "If I didn't do it, somebody else would." "The company owed it to me!" "There are worse things!" "I was just following orders." "My boss made me do it!" "That's not my job!" "They had it coming to them!" "People like that deserve what they get."

Some of these rationalizations, in special circumstances, may excuse an injury we inflicted. However, for the most part, they are inadequate attempts to escape a responsibility that, in reality, is ours.

1.5.4: Responsibility for Corporate Actions

Within the modern corporation, responsibility for a corporate act is often distributed among many cooperating parties. Corporate acts normally are brought about by the actions or omissions of many different people. A number of people may cooperate so that their linked actions and omissions jointly produce the corporate act. For example, the members of an executive committee may vote to carry out a fraud that none of them could carry out alone. Or one team of managers designs a car, another team tests it, and a third team builds it. Or a manager may order something illegal and employees carry out that order. One group may knowingly defraud buyers and another group silently enjoys the resulting profits. One person may supply the means and another person carries out the act. One group does the wrong and another group conceals it. The possible variations on cooperation in evil are endless.

Who is morally responsible for such jointly produced acts when the acts themselves are evil? The traditional view is that each person who knowingly and freely cooperates to produce a corporate act is morally responsible for the act.[102] In this view, when a person needs others to bring about a wrongful corporate act, his situation is no different from that of a person who needs an instrument to commit a wrong. For example, if I want to shoot a person, I have to rely on my gun to work; or if I want to defraud my company, I may have to rely on others to do their part. In both cases, if I knowingly and freely bring about the wrong, even though I rely on other things or people, I am fully morally responsible for the wrong. I am responsible even though this responsibility is shared with others.

This traditional view of the individual's responsibility for corporate acts has been criticized. Critics claim that when the members of a corporation bring about a corporate act, the act is the responsibility of the corporation, not the individuals who make up the corporation.[103] For example, we normally credit the manufacture of a defective car to the corporation that made it and not to the individual engineers involved in its manufacture. The law also often attributes the acts of a corporation's managers to the corporation and not to the managers as individuals (as long as the managers acted within their authority). However, traditionalists reply that although the law sometimes attributes acts to corporations, this legal fact does not change the moral reality behind all corporate acts. The reality is that individuals had to carry out the particular actions that brought about the corporate act. Since individuals are morally responsible for the intended consequences of their actions, anyone who intentionally cooperates with others to bring about a corporate act is morally responsible for that act.[104]

Some claim, however, that when a subordinate acts on the orders of a legitimate superior, the subordinate is absolved of responsibility for that act. Only the superior is morally responsible for the wrongful act although the subordinate was the one who carried it out. The loyal agent's argument discussed above was based on this claim. That argument says that if an employee loyally does what the company ordered him or her to do, then the company, not the employee, should be held responsible. Several years ago, the managers of a company that makes computer parts told employees to falsify a government report. The report would falsely state that the computer parts the company sold to the government had been tested for defects when in fact they had not.[105,106] Some employees objected to falsifying the government reports. Yet when the managers insisted it was an order and that the company wanted it, the employees complied. When the fraud was discovered, the employees argued that they were not morally responsible because they were just following orders.

The idea that following orders somehow absolves me of any blame for what I do is mistaken. As we have seen, I am morally responsible for an injury when I meet three conditions: I caused it, I knew what I was doing, and I did it of my own free will. So when I knowingly and freely cause an injury, the fact that I was following orders does not change the reality that I fulfilled these three conditions. So it necessarily follows that I am morally responsible for the injury. This is not to say that it is always easy to refuse to follow orders. In fact, it is often extremely difficult and can carry great personal costs. As the Milgram experiment showed, most people are willing to obey the orders of an authority even when they know they are being ordered to do something wrong. Even so, when I know that if I follow an order, I will be cooperating with evil, I must do everything I can to summon the strength and courage to refuse.

On the Edge

Gun Manufacturers and Responsibility

On December 14, 2012, Adam Lanza, opened fire inside Sandy Hook Elementary School, and in less than 5 minutes killed 20 first-grade children and 6 adults.[107] In 2014 the families of three of the children sued the manufacturer of the gun Lanza used. The three 6-year-old victims were Jesse Lewis, who liked riding horses and whose last meal was an egg sandwich and hot chocolate; Dylan Hockley, whose favorite color was purple and who liked looking at the moon; and Benjamin Wheeler, who wanted to be an architect, a paleontologist, or a lighthouse keeper. Lanza was able to kill 26 people in 5 minutes because he used the AR-15, a semiautomatic rifle manufactured by Bushmaster Firearms International. The lawsuit filed by the families stated the AR-15 was designed as a military weapon for the U.S. Army and was designed for killing people. James Holmes had earlier used the same gun to kill 12 people in a Colorado movie theater; Jacob Roberts had used one to kill two people in a shopping mall in Portland, Oregon; and John Zawahri used one to kill 5 people at Santa Monica College in California. According to the families, Bushmaster knew the weapon was designed to kill people, yet the company introduced the rifle into the consumer marketplace anyway. Consequently, they argued, Bushmaster was ultimately responsible for the killings and so should be made to pay punitive damages for their deaths.

WRITING PROMPT

Journal: Do Companies Bear Direct Responsibility?

1. Is Bushmaster morally responsible for the 26 deaths at Sandy Hook Elementary School? Why or why not?
2. Are gun manufacturers morally responsible for any deaths caused by the use of their guns? Explain.
3. Are manufacturers of other products ever morally responsible for deaths caused by the use of their products? Why or why not?

▶ The response entered here will appear in the performance dashboard and can be viewed by your instructor.

Submit

Web Resources

Readers who want to conduct online research on the topic of business ethics might want to begin by accessing the following websites. The website of Santa Clara University's Markkula Center for Applied Ethics has outstanding articles and hundreds of annotated links to other web resources on ethics at *http://www.scu.edu/ethics*. Larry Hinman's Ethics Updates at the University of San Diego also has a large collection of articles and links to numerous topics in ethics at *http://ethics.sandiego.edu/*. The Essential Information organization provides links to numerous organizations and data resources that deal with CSR at *https://www.essentialinformation.org*. Corporate Watch has information on various companies and issues related to business ethics at *http://www.corpwatch.org*, as do Resources for Activists at *http://www.betterworldlinks.org*, World Watch Institute at *http://www.worldwatch.org*; and Mallen Baker's website on CSR at *http://www.mallenbaker.net/*.

SHARED WRITING

The Place of Ethics and Moral Standards

1. "Ethics has no place in business." Expand upon this statement, providing a rationale for your assumptions and conclusions.
2. In your judgment, did the managers of Merck (Module 1.1.1) have a moral obligation to spend the money needed to develop the drug for river blindness? Can you state the general moral standard or standards on which you base your judgment? Are you willing to apply the "consistency requirement" to your moral standard or standards? Why or why not?

▶ A minimum number of characters is required to post and earn points. After posting, your response can be viewed by your class and instructor, and you can participate in the class discussion.

Submit **0 characters | 140 minimum**

SHARED WRITING

Moral Behavior and Moral Development

1. Read again the account of BFGoodrich in Module 1.2.1, and consider the roles of Lawson and Vandivier. Explain any obstacles to moral behavior that you see operating in the BFGoodrich situation, and support your views with ethical arguments.
2. "Kohlberg's views on moral development show that the more morally mature a person becomes, the more likely it is that the person will obey the moral norms of his or her society." Deconstruct this statement from an ethical perspective.

▶ A minimum number of characters is required to post and earn points. After posting, your response can be viewed by your class and instructor, and you can participate in the class discussion.

Submit **0 characters | 140 minimum**

Case Study 1.1: Slavery in the Chocolate Industry[1]

In 2012, CNN published a series of investigations as part of its "Freedom Project," which found that "child labor, trafficking and slavery are rife" in the chocolate industry. The CNN investigations revealed that large numbers of children were being held as slaves on cocoa farms in Ivory Coast, a small nation on the western coast of Africa.

Forty-five percent of the chocolate we consume in the United States and in the rest of the world is made from cocoa beans grown and harvested on farms in Ivory Coast. Few realize that a portion of Ivory Coast cocoa beans that goes into most of the chocolate we eat was grown and harvested by children who work as slaves. The slaves are boys between 12 and 16—but sometimes as young as 9—kidnapped from villages in surrounding nations and sold to the cocoa farmers by traffickers. The farmers whip, beat, and starve the boys to force them to do the hot, difficult work of clearing the fields, harvesting the beans, and drying them in the sun. The boys work from sunrise to sunset. Some are locked in at night in windowless rooms where they sleep on bare wooden planks. Far from home, unsure of their location, unable to speak the language, isolated in rural areas, and threatened with harsh beatings if they try to get away, the boys rarely attempt to escape their nightmare situation. Those who try are usually caught, severely beaten as an example to others, and then locked in solitary confinement. Every year unknown numbers of these boys die or are killed on the cocoa farms that supply our chocolate.

The plight of the enslaved children was first widely publicized at the turn of the twenty-first century when True Vision, a British television company, took videos of slave boys working on Ivory Coast farms and made a documentary depicting the sufferings of the boys. In September 2000, the documentary was broadcast in Great Britain, the United States, and other parts of the world. The U.S. State Department, in its *Year 2001 Human Rights Report*, estimated that about 15,000 children from the neighboring nations of Benin, Burkina Faso, Mali, and Togo had been sold into slavery to labor on Ivory Coast cocoa farms.

Although slavery is illegal in Ivory Coast and the minimum age of employment is 14, the laws are poorly enforced. Open borders, a shortage of enforcement officers, widespread poverty, and the willingness of local officials to accept bribes from people trafficking in slaves all contribute to the problem. In addition, prices for cocoa beans in global markets have been depressed most years since 1996. As prices declined, the already impoverished cocoa farmers—who earn less than $2 per day on average—turned to slavery to cut their labor costs. Although prices began to improve during the early years of the twenty-first century, cocoa prices fell again in 2004 and remained low until the summer of 2010, when they again began to rise. The poverty that motivated many Ivory Coast cocoa farmers to buy children trafficked as slaves was aggravated by other factors besides low cocoa prices. Working on small isolated farms of one to three acres, cocoa farmers cannot communicate among themselves nor with the outside world to learn what cocoa is selling for. Consequently, they are at the mercy of a local middleman, a "traitant" or "pisteur," who drives out to the farms, buys the farmers' cocoa for half of its current market price, and hauls it away in his truck. Unable to afford trucks themselves, the farmers must rely on the middlemen to get their cocoa to market. The traitant takes the cocoa beans to a warehouse in a nearby large town where they are combined with the beans harvested on other farms, and where the major exporters, such as Archer Daniels Midland (ADM) and Cargill, purchase the cocoa beans to export to their processing plants.

Chocolate is a $13 billion industry in the United States, where Americans consume over 3 billion pounds each year. The names of the four largest U.S. chocolate manufacturers—all of whom use the morally "tainted" cocoa beans from Ivory Coast in their products—are well known: Hershey Foods Corp. (maker of Hershey's milk chocolate, Reeses, and Almond Joy), Mars, Inc. (maker of M&Ms, Mars, Twix, Dove, and Milky Ways), Nestlé USA, (maker of Nestlé Crunch, Kit Kat, Baby Ruth, and Butterfingers), and Kraft Foods (which also uses chocolate in its baking and breakfast products). Less well known, but a key part of the industry, are the names of ADM Co., Barry Callebaut, and Cargill Inc., all of whom serve as middlemen who buy the cocoa beans from Ivory Coast, grind and process them, and then sell the processed cocoa to the chocolate manufacturers.

Pressure Leads to Action

That many farmers in Ivory Coast use slave boys to farm their cocoa beans was already known to American chocolatemakers when media reports first began publicizing the issue at the beginning of the twenty-first century. In 2001, the Chocolate Manufacturers Association, a trade group of U.S. chocolate manufacturers (whose members include Hershey, Mars, Nestlé, and others) admitted to newspapers that they had been aware of the use of slave boys on Ivory Coast cocoa farms for some time. Pressured by various antislavery groups, the Chocolate Manufacturers Association stated on June 22, 2001, that it "condemned" "these practices" and agreed to fund a "study" of the situation.

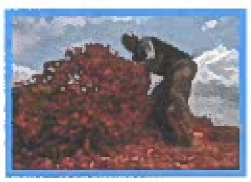
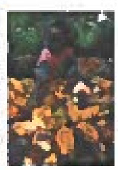
On June 28, 2001, U.S. Representative Eliot Engel sponsored a bill in the U.S. House of Representatives that aimed at setting up a labeling system that would inform consumers whether the chocolate they were buying was "slave-free" (i.e., guaranteed not to have been produced by slave children). The measure passed the House by a vote of 291 to 115. However, when U.S. Senator Tom Harkin introduced the same bill in the Senate, it met resistance. The U.S. chocolate industry—led by Mars, Hershey, Kraft Foods and ADM and with the help of lobbyists Bob Dole and George Mitchell—mounted a major lobbying effort to fight the "slave-free" labeling system. The companies argued that a labeling system would not only hurt their own sales, but in the long run could hurt poor African cocoa farmers by reducing their sales and lowering the price of cocoa, which would add to the very pressures that led them to use slave labor in the first place. As a result of the industry's lobbying, the "slave-free" labeling bill was never approved by the Senate and so never became law. Nevertheless, Representative Engel and Senator Harkin threatened to introduce a new bill that would

Cocoa Production in Ivory Coast

Forty-five percent of the chocolate on the world market today is made from cocoa beans grown in Ivory Coast. A portion of those cocoa beans was grown and harvested by children who work as slaves.

Interactive

A farmer works with cocoa beans at a farm in southwest Ivory Coast. Cocoa, the main ingredient of chocolate, is a highly profitable crop in West Africa. Ivory Coast leads the world in production and export of the cocoa beans, supplying 33 percent of cocoa produced in the world.

prohibit the import of cocoa produced by slave labor, unless the chocolate companies voluntarily eliminated slave labor from their production chains.

The members of the Chocolate Manufacturers Association and the World Cocoa Foundation, caught in the spotlight of media attention, announced on October 1, 2001, that they intended to put in place a system that would eliminate "the worst forms of child labor," including slavery. In spring 2002, the Chocolate Manufacturers Association and the World Cocoa Foundation as well as the major chocolate producers—Hershey's, M&M Mars, Nestlé, and World's Finest Chocolate—and the major cocoa processors—Blommer Chocolate, Guittard Chocolate, Barry Callebaut, and ADM—all signed an agreement to establish a system of certification that would verify and certify that the cocoa beans they used were not produced by the use of child slaves. Known as the "Harkin-Engel Protocol," the agreement also said the chocolate companies would fund training programs for cocoa bean farmers to educate them about growing techniques, while explaining the importance of avoiding the use of slave labor. The members of the Chocolate Manufacturers Association also agreed to "investigate" conditions on the cocoa farms and establish an "international foundation" that could "oversee and sustain efforts" to eliminate child slavery on cocoa farms. In July 2002, the first survey sponsored by the Chocolate Manufacturers Association concluded that some 200,000 children—not all of them slaves—were working in hazardous conditions on cocoa farms and that most of them did not attend school.

Unfortunately, in 2002, Ivory Coast became embroiled in a civil war that continued until an uneasy peace was established in 2005 and finalized in 2007. Rebel forces, however, continued to control the northern half of the country. Reports claimed that much of the money funding the violence of both the government and rebel groups during these years came from sales of cocoa, and that buyers of "blood chocolate" from Ivory Coast were supporting this violence.

Far from Achieving Goals

The 2005 deadline the major chocolate companies and their associations had set came and passed without the promised establishment of a certification system to ensure cocoa beans were not being produced by slave children. At this point, the chocolate companies amended the protocol to give themselves more time by extending their own deadline to July 2008, saying that the certification process had turned out to be more difficult than they thought it would, particularly with the outbreak of a civil war. Although the companies did not establish a certification system while the civil war raged, they did manage to secure enough cocoa beans to keep their chocolate factories going at full speed throughout the war.

By early 2008, the companies had still not started work on establishing a certification system or any other method of ensuring that slave labor was not used to produce the cocoa beans they used. On February 15, 2008, *Fortune* magazine reported that child slavery in Ivory Coast was still a continuing problem and that the chocolate companies were doing virtually nothing to eliminate it. The companies issued a new statement in which they extended to 2010 their deadline for complying with their promise to establish a certification system. According to the companies, they had been investing several million dollars a year into a foundation that was working on the problem of child labor. However, the investigative reporter who wrote the 2008 *Fortune* article stated that the foundation had only one staff member working in Ivory Coast. Moreover, the activities of that lone staff member were limited to giving "sensitization" workshops to local people, during which he would explain that child labor is a bad thing. The foundation was also helping a shelter that provided housing and education to homeless street children. The *Fortune* reporter found no evidence that anything was being done to develop the promised certification system. By now monitoring and certification systems had been developed and were being used on fair trade and organic cocoa farms in other parts of the world. Although some of these systems had been functioning for several years, the chocolate companies who sourced their cocoa from Ivory Coast seemed unable or uninterested in learning from their example.

On September 30, 2010, the Payson Center at Tulane University issued a report on the progress that had been made on the certification system the chocolate industry had promised to establish, as well as on the progress the industry had made regarding its promise to eliminate "the worst forms of child labor" from Ivory Coast cocoa farms. The report was commissioned by the U.S. Department of Labor, which had been asked by Congress to assess progress on the "Harkin-Engel Protocol," and which gave Tulane University an initial grant of $4.3 million in 2006 and an additional $1.2 million in 2009 to compile the report. According to the report, "Industry is still far from achieving its target to have a sector-wide independently verified certification process fully in place . . . by the end of 2010." The report found that between 2002—the date of the original agreement—and September 2010, the industry had managed to contact only about 95 (2.3 percent) of Ivory Coast's cocoa farming communities, and that to complete its "remediation efforts," it would have to contact an additional 3,655 farm communities. While the Tulane group confirmed that forced child labor was being used on the cocoa farms, it also found that no industry efforts to "remediate" the use of forced labor "are in place." Two video documentaries—*The Dark Side of Chocolate* and *Chocolate: The Bitter Truth*—reported on the continuing use of enslaved children on Ivory Coast farms in 2010. Representatives of the chocolate companies interviewed in the films denied the problem or claimed they did not know anything about it.

By the middle of 2010, it was clear that the companies would again fail to meet their deadline. So on September 13, 2010, they signed yet another agreement promising now to reduce "the worst forms of child labor in the cocoa sectors of Cote d'Ivoire [Ivory Coast] and Ghana . . . by 70 percent in aggregate" by the year 2020. This time, they agreed to work with the U.S. Department of Labor, Senator Harkin's Office, and the Government of Ghana to achieve this goal.

The problem of certification remained unresolved as 2011 began. The manufacturers and distributors buying Ivory Coast cocoa beans seemed unable to find a way to "certify" that slavery was not used to harvest the cocoa beans they purchased. Representatives of the chocolate companies argued that the problem of certification was difficult because there are more than 600,000 cocoa farms in Ivory Coast, most of them small family farms located in remote rural regions that are difficult to reach and that lack good roads and other infrastructure. Critics, however, pointed out that these difficulties did not seem to pose any obstacles to obtaining cocoa beans from those same farms.

In February 2011, fighting between the rebels in the north and the Ivory Coast government in the south broke out again for a brief period in a dispute over who was the legitimate winner of the 2010 presidential election. The fighting ended in April 2011, when one of the candidates finally conceded the election, allowing the other candidate, Alassane Ouattara, to be declared the legitimate president. The fighting, however, provided the chocolate companies with another reason for being unable to implement a certification system.

Mixed Responses

Although the industry still seemed to be dragging its feet, some companies had begun to develop their own responses to the call for a certification system. Hershey, for example, announced in 2012 that it had asked the Rainforest Alliance (an NGO headquartered in New York with offices around the world) to implement a certification system for its Dagoba and Bliss lines of chocolate products. In 2013 Hershey announced that by 2020 its entire cocoa supply would come from certified farms, and in 2014 it reported that 18% of its cocoa supply was certified by the Rainforest Alliance or other NGOs. Nestlé announced that by 2014 the cocoa used in its Kit Kat candy would be certified by UTZ Certified (an NGO headquartered in Amsterdam that provides traceability services for palm oil, tea, and cocoa). Kraft/Cadbury announced that, like Hershey, it was working to have the Rainforest Alliance certify its cocoa.

With the new presidency of Alassane Ouattara, the government of Ivory Coast also began to try to deal with the problem of child slavery and child labor. In 2012, the government launched a "National Action Plan Against Trafficking, Exploitation, and Child Labor" and created a Joint Ministerial Committee for "the Fight against Trafficking, Exploitation, and Child Labor." But the Committee lacked resources. Only 25 government labor inspectors worked on child labor, and total funds budgeted to fight child labor were only the equivalent of US$588,566. Because of the lack of funds and vehicles, no labor inspections were carried out in the agricultural sector. The national police of the Ministry of Justice was charged with enforcing criminal laws against child trafficking and forced child labor, but in 2012 only five police officers were assigned to the anti-trafficking unit, and they had to share one vehicle and only investigated seven cases that year; five additional officers were hired in 2013.

In the United States, three former child slaves sued Nestlé, ADM, and Cargill, claiming that the companies knew that the farmers supplying their cocoa were using child slaves, yet the companies continued to support the farmers by buying their cocoa; although they controlled the Ivory Coast cocoa market, the suit claimed, the companies had failed to use their control to stop slavery and instead facilitated it. The three former slaves based their lawsuit on the Alien Tort Statute, a federal law that allows foreigners to sue companies that participate in violations of their human rights. Although a district court initially dismissed the case, in 2014, the 9th Circuit Court of Appeals overruled the district court and allowed the case to proceed. The three former slaves charged that they were trafficked as children into Ivory Coast and forced to work for 14 hours a day on cocoa farms. According to the lawsuit, they were fed scraps and frequently whipped and beaten. One said he saw guards cut open the feet of children who tried to escape.

While some cocoa is now being certified as "slave-free," the great majority of the cocoa sourced from Ivory Coast is not. The cocoa beans tainted by the labor of slave boys are, therefore, still being quietly mixed together in bins and warehouses with cocoa beans harvested by free paid workers, so that the two are indistinguishable. From there, they still make their way into the now tainted chocolate candies that Hershey's, M&M Mars, Nestlé, and Kraft Foods make and that we buy here and in Europe. Without an effective system of certification, much of the chocolate we eat that is made from West African (Ivory Coast and Ghana) cocoa probably contains a portion of tainted chocolate made from beans harvested by enslaved children.

WRITING PROMPT

Journal: What Are Your Views on the Nature of Wrong?

1. **What are the systemic, corporate, and individual ethical issues raised by this case?**
2. **In your view, is the kind of child slavery discussed in this case absolutely wrong no matter what, or is it only relatively wrong (i.e., if one happens to live in a society such as ours that disapproves of child slavery)? Explain your view and why you hold it.**
3. **Who shares in the moral responsibility for the slavery occurring in the chocolate industry?**
4. **Consider the bill that Representative Engel and Senator Harkin attempted to enact into a law, but which never became a law because of the lobbying efforts of the chocolate companies. What does this incident show about the view that "to be ethical it is enough for businesspeople to follow the law"?**

The response entered here will appear in the performance dashboard and can be viewed by your instructor.

Submit

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Case Study 1.2: Aaron Beam and the HealthSouth Fraud

In 2015, Richard M. Scrushy's website described him as a "Speaker, Businessman, Entrepreneur." The website does not mention that he is also a convicted felon and that only two years earlier he had finished spending six years and ten months in a federal prison plus three years of supervised probation as his sentence for being found guilty of bribery, conspiracy, and mail fraud. The website also describes him as "a business visionary [with] a successful business career" and "the HealthSouth mogul . . . [who] served as Chairman and Chief Executive Officer of HealthSouth for nearly twenty years." The website omits any mention of the fact that he lost all his money when he was ordered by a judge to pay $2.87 billion in damages because he "knew of and actively participated in the fraud" that nearly destroyed HealthSouth.

HealthSouth was founded by Richard Scrushy and Aaron Beam. Although Scrushy was the company's main founder and leader, much of what became known as the "HealthSouth fraud" was organized and carried out by Aaron Beam.

Aaron Beam was born in November 1943 and grew up in Shreveport, Louisiana. In 1967, he graduated from Louisiana State University with a degree in business. After serving in the Navy, he took accounting courses at the University of Houston and passed the Certified Public Accountant (CPA) exam in 1978. With his CPA in hand, he took a job at Lifemark Corporation, a company that owned and managed several hospitals. There he met Richard Scrushy, whom he described as a "charismatic" leader, an engagingly "charming" person, and a "brilliant" businessman. At Lifemark, Scrushy had worked his way up to the position of chief operating officer after having taught briefly in the respiratory therapy program of the University of Alabama and at Wallace State Community College. In 1983 Lifemark was purchased by American Medical International, and Scrushy invited Beam to join him in starting HealthSouth, a new company that would provide medical rehabilitation services to hospitals and their outpatients in Birmingham, Alabama. Scrushy believed that they would be able to provide rehabilitation therapy to patients at lower costs than regular hospitals, and so hospitals would be glad to send their patients to them for rehabilitation. He would turn out to be right.[2]

The two founded the company in 1984, with Scrushy as CEO and Beam as chief financial officer (CFO). Beam later said that Scrushy ran the company like a "dictator," and with a self-assurance that intimidated people and sometimes made Aaron and others fearful of contradicting him. Scrushy, he said, was "almost a cult-like figure" who inspired intense loyalty and whom people eagerly followed, willingly carrying out his confident orders.[3] Another employee said Scrushy "had boundless energy" and "was a great motivator" who worked "so hard himself, it was almost like you couldn't let him down."[4]

From the beginning, Scrushy and Beam both knew the company had to appear profitable to satisfy investors and lenders and to later succeed in issuing and selling company stock to the public. Although the company was doing reasonably well, Scrushy told Beam that he should do whatever he could to make their financial reports look even better. Although Beam was reluctant at first, he felt both pressured and awed by Scrushy and eventually moved some of the company's startup costs from the "expenses" column to the "capital investments" column, which made their net profits look larger.[5] While he realized doing so might be "a little" misleading, Beam felt it was technically within the bounds of accounting rules and that investors would be sophisticated enough to understand what was happening. He described the move to himself as "aggressive accounting," but definitely "not fraudulent."

In 1986, the company successfully went public, and both Scrushy and Beam as well as their investors made a great deal of money. Moreover, the company continued to expand rapidly, and revenues continued to climb upward just as quickly. With his new riches, Beam was able to buy a beach house, a condo in the French Quarter of New Orleans, a private plane, fancy cars, and $30,000 worth of Hermès ties. Everywhere he went, he was known and respected. When he walked into a restaurant he could see people pointing him out, while others came up to meet him or talk to him, telling him what a wonderful job he was doing. "I was a rock star," he later said, and it was all "pretty heavy stuff." [6]

Scrushy also celebrated his new wealth. He had divorced his first wife and married his second, a woman named Karen with whom he had four children and a passionate but stormy relationship. He bought two Cessna jets, Lamborghini and Rolls Royce cars, 10 yachts, expensive artwork, and several multimillion-dollar houses. He also built himself an estate with a 20-room 14,000 square-foot mansion and a helicopter pad. He made lavish donations to charities, gave money to schools that gratefully named buildings after him, and made such a large gift to a local community college that it named a whole campus the "Richard M. Scrushy Campus." In high school, Scrushy had taught himself to play the guitar and had played in garage bands; now he recruited several professional musicians, formed a country music group named Dallas County Line, and with himself as lead singer, cut a CD and financed a world tour for the group.

Hiding a Shortfall to Appear Profitable

Over the next 10 years the HealthSouth company grew into a $3 billion Fortune 500 company. With 22,000 employees, it was the nation's largest provider of rehabilitation, surgery, and therapy outpatient services. Beam continued using "aggressive accounting" practices in the company's financial reports. When the company expanded to other locations, he had some of the costs capitalized instead of being expensed, and sometimes the added revenues from the new locations were listed as revenue growth from the company's previous locations. Instead of writing off unpaid receivables, Beam just kept them on the books as company "assets." He continued to reassure himself with the thought that "astute investors knew what we were doing and saw it as financial gamesmanship and not outright fraud."[7]

Part way through the second quarter of 1996, Scrushy and Beam realized that the company, for the first time, would fall short of meeting Wall Street analysts' expectations of quarterly revenue by about $50 million. The two men were sure this was a one-time event and that the company would return to meeting analysts' targets the following financial quarter, like it had for the past 40 quarters. However, at the time, the company was negotiating a new credit agreement with a syndicate of 32 lenders from around the world, and while the banks had agreed to extend HealthSouth a line of credit totaling $1.25 billion, they had also made clear that the company had to provide them with favorable quarterly financial statements.[8] Scrushy assured Beam that if the banks got wind of the shortfall, that information would cripple the company they had worked so hard to build. So Beam had to do everything he could to keep as much information about the shortfall as possible from leaking out of the company. If they could just get through the quarter, Scrushy felt, then everything would be okay.[9]

Agreeing with Scrushy's assessment of the situation, Beam decided to fix the company books "this one time." Beam convinced two of the people working for him in the finance department to come in on the plan: Bill Owens, the company controller, and Mike Martin, the company treasurer. With the help of a few other employees, they went through the earnings reports that each of the dozens of HealthSouth clinics scattered around the country turned in to company headquarters each financial quarter. They carefully inflated the numbers by inserting many small additional revenue entries throughout each report. Then they consolidated the reports into a single corporate report.[10] The numerous fictitious additions they made on the reports were all small because they knew the external auditors would only check the validity of large revenue entries, and were highly unlikely to check the many small fictitious entries they were making.[11] Moreover, Scrushy had earlier told Beam that he did not allow the company's own internal auditors access to the corporate general ledgers, which is where the fraud was being carried out.

Although he realized these actions violated generally accepted accounting principles, Beam felt that what he was doing was for the good of everyone in the company. If the company failed, a lot of people would be hurt. Anyway, he was only going to do it just this one time.

Unfortunately, the following quarter company earnings again fell short of Wall Street expectations. This time Scrushy did not have to persuade Beam. After the first time, Beam later said, it had become "a little easier going down that road."[12] The fraud proceeded much like it had the previous quarter, except that more people were brought into the scheme. Ken Livesay, the assistant controller, helped by downloading all of the clinic reports from around the country to his computer and figuring out the gap between the company's true earnings and what Wall Street expected—about $70 million this time.[13] He reported these figures to Bill Owens and Mike Martin. Then Beam, Owens, Martin, Livesay, and a few others worked their way through the clinics' reports, inserting enough fictitious revenue entries to fill in the gap. Because earnings kept falling short of expectations, the process had to be repeated each quarter. Eventually, more finance personnel were added to the group until it grew to about 15 people who started referring to themselves as "the family."

By 1997 HealthSouth was the largest rehabilitation services company in the industry and, with a total of $106 million in compensation, Scrushy was the third-highest-paid CEO in America. A year earlier his second wife had divorced him and now he married his third, Leslie, with whom he had two more children. He became an active member of the Guiding Light Church to which he made sizable donations, and he and his wife eventually began hosting a daily evangelical television show that was broadcast from the church.

Although he was now hardly hesitating to tamper with the company reports, Beam still felt anguished and guilty and found it difficult to sleep. Later he admitted that he did not have the "ethical bearing" that he should have had to stand up to Scrushy. He should, he said, have had the "courage" to say, "no, this is wrong."[14] He felt that he had crossed a line somewhere and now found himself doing things he could not deal with.

Ashamed of what he was now so willingly doing, Beam decided to retire from the company in 1997. He bought several acres of land in the country and there he and his wife built their 5,000 square-foot "dream house." Beam assumed that the company's earnings would eventually improve and that it would once again do well enough to stop having to falsify its financial reports. He was wrong.

Investigation and Outcome

The fraudulent accounting at HealthSouth continued for six more years, until 2003 when the FBI began investigating whether Scrushy might be part of an insider trading scheme. As part of its investigation, the FBI interviewed Weston Smith, who had replaced Beam as CFO. Smith had little to say about the insider trading scheme; instead, he informed the surprised investigators about the fraud that had been going on at HealthSouth.

By the time the government stepped in and prosecuted HealthSouth's executives in 2003, HealthSouth's earnings had been overstated by $2.7 billion. In 2005, saying he did not know that fraudulent entries were being inserted into the books, and in spite of being accused by Beam, Smith, Martin, Owens, Livesay, and others of having known about the scheme, Scrushy was declared innocent of any criminal wrongdoing by a jury. Beam and the other members of "the family" were not so lucky. He and 15 other HealthSouth employees who had helped carry out the fraud were fined and jailed or placed on probation.

Although Scrushy was not convicted of any wrongdoing in the HealthSouth fraud, in 2006 he was found guilty of paying $500,000 in bribes to Alabama Governor Don Siegelman in exchange for a seat on a state hospital regulatory board. Scrushy was sentenced to seven years in prison for the bribe, a sentence he began serving in 2007. Scrushy believed that government prosecutors had filed the bribery charges against him in retaliation for their inability to secure his conviction in the HealthSouth trial, but his lawyers failed to win the appeals they filed on Scrushy's behalf. In 2009, while serving his jail sentence, Scrushy lost a $2.8 billion civil lawsuit brought against him by the company's shareholders; at the end of that trial, the judge said that it was clear to him that "Scrushy knew of and actively participated in the fraud." Scrushy's bank accounts were seized and his houses, boats, cars, and other remaining property were auctioned off to pay the $2.8 billion judgment against him. Distraught by the outcome of the lawsuit which left his wife and children penniless, Scrushy continued to maintain his innocence in both the HealthSouth fraud and in the Siegelman bribe case. His wife remained loyal to him and brought their children to visit him every week while he served his prison sentence. Both his wife and his former pastor at the Guiding Light Church continued to believe in Scrushy's innocence.

Although he could have received up to 30 years in jail and been fined up to $1 million, Beam spent only three months in a federal prison and paid $285,000 in fines and another $250,000 in lawyer's fees. After he was released from prison in 2006, Beam said his experience had taught him some hard lessons, but he still blamed Scrushy for much of what had happened. Scrushy, he later said, was a "sociopath" with a large ego who had little empathy for others and who could "intimidate people." People like Scrushy, he suggested, become managers in many major companies where they ask employees to do things they know are wrong. Employees need to "have some moral character," he said, to resist being influenced by such managers and to avoid being led "down a path that you shouldn't go." [15]

Aaron Beam now runs a lawn service called Green Beam Lawn Service in Alabama, using a lawnmower he bought by bartering 50 of his last remaining Hermès ties. He no longer has numerous employees working for him but, he says, "I'm living my life honestly" and that has given him "a lot of peace of mind." While he has to mow lawns in the Alabama heat for no more than about $50 a lawn, the money he makes, he says, is money he knows he's earned and so is able to "sleep well at night." [16]

Scrushy served out his prison term and was released from prison on July 25, 2012, and began his three years of supervised probation that included providing 500 hours of community service. In November 2014, a judge ruled that he did not have to serve the final eight months of his probation and Scrushy was finally completely free.

Scrushy moved to Houston, Texas, where he now offers his services as an inspirational speaker and experienced businessman. His personal website, richardscrushy.com, makes no mention of the HealthSouth fraud nor of his bribery conviction. Instead, it describes him as a "business visionary" who has a "powerful" record of accomplishment as a "dynamic risk taking entrepreneur."[17]

WRITING PROMPT

Journal: Evaluate Moral Responsibility at HealthSouth

1. Which of the "obstacles" to moral behavior do you see at work in Aaron Beam's behavior and thinking? In Richard Scrushy's?
2. Explain how Beam might have used the loyal agent's argument to defend his actions. Do you think that in Beam's situation, the loyal agent's argument might have been valid? Explain.
3. In terms of Kohlberg's views on moral development, at what stage of moral development would you place Beam? Explain. At what stage would you place Scrushy?
4. Was Beam *morally responsible* for engaging in the "aggressive accounting" methods he used? Was his responsibility *mitigated* in any way? Was he *morally responsible* for changing the clinic reports to increase the company's earnings? Was his responsibility for this *mitigated*? Were those who *cooperated* in his actions morally responsible for those actions? Was their responsibility mitigated? Do you think Scrushy was morally responsible for the accounting fraud? Explain each of your answers.

▶ The response entered here will appear in the performance dashboard and can be viewed by your instructor.

Submit

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Summary

1. Ethics is the study of the moral standards that we and others hold, and it aims at developing standards that are reasonable and can be justified. Moral standards are standards that involve serious wrongs or benefits; should be preferred to other standards and to self-interest; are not established by authority figures; are felt to be universal; are based on impartial considerations; and are associated with special emotions (such as guilt and remorse) and vocabulary (such as *obligation, rights, justice*). From the age of three, we seem to be able to distinguish moral from nonmoral standards.
2. Business ethics is a particular kind of ethics: it is the study of the moral standards that should guide business activities, and it aims to develop standards that are reasonable to apply in business. Some argue that ethics does not belong in business because free markets automatically produce ethical behavior, because managers have an obligation to serve their companies regardless of ethics, and because as long as managers follow the law they will behave ethically. All of these arguments, however, are based on false assumptions. Moreover, there are many legitimate reasons to think that ethics should be brought into business. They include the following: ethics applies to all human activities; business needs ethics to survive; ethics is consistent with profit-seeking; customers, employees, and people in general care about ethics in business; studies show that ethics does not lower profits but seems to enhance them. Furthermore, several factors have created new ethical questions for business people; for

example, new information technologies create risk, threaten privacy, and introduce new forms of property; developments in nanotechnology, biotechnology, and genetic engineering create new risks to human health; and the rise of globalization has brought both large benefits and large threats to nations around the world.

3. An important objection to studying ethics is based on the theory of ethical relativism. Ethical relativism is the theory that there are no ethical standards that are absolutely true and that apply or should be applied to people of all societies. Instead, ethical relativism holds, each society has its own distinct ethical standards, and the members of any society should follow whatever standards their own society happen to hold. However, ethical relativism appears to be a flawed theory. First, some moral standards are found in all societies, namely those that are required for any society to function. Second, even if societies do differ in their moral views, this does not logically show that none of these views should be held by all people everywhere. Third, relativism implies that we must each accept the standards of our own society; but why should we conform to whatever our society (or a majority) believes?
4. Some have noted that since people acquire their moral standards as children and carry these into adulthood, studying ethics as an adult will do nothing to improve our moral standards. However, many studies show that people's moral views keep developing into adulthood. Lawrence Kohlberg's studies, for example, provided evidence that people's moral abilities move from a preconventional, to a conventional, and on to a postconventional level of development. Carol Gilligan's studies suggested that people, particularly women, might also move through a similar sequence of development, focused on becoming better at caring and being responsible for others and oneself.
5. A key part of moral development is improving one's moral reasoning abilities. Moral reasoning consists of the mental reasoning processes through which we determine what our moral standards are, and judge whether our behaviors, institutions, or policies accord with or violate our standards. At a minimum, moral reasoning should be logical; should rely on evidence that is accurate, relevant, and complete; and should be consistent.
6. To behave ethically, a person must (1) recognize when a situation requires moral reasoning, something that moral disengagement can influence; (2) make a judgment about what the ethical course of action is, which can be influenced by biased views about the world, others, and oneself; (3) decide to do what is ethical, which can be influenced by moral seduction and an organization's culture; and (4) carry out one's decision, which can be influenced by weakness of will and one's belief about the locus of control of one's actions.
7. Finally, it is important to understand that there is a difference between reasoning about whether an act or injury is morally wrong, and determining whether a person is morally responsible for a wrongful act or injury. Whether a person is morally responsible or culpable for a wrongful act or injury depends on three factors: (1) whether the person caused or helped to cause the act/injury or failed to prevent it when he or she could and should have; (2) whether the person knew what he or she was doing; and (3) whether the person acted according to his or her own free will. Depending on how seriously wrong a person's action was, the person's moral responsibility for it can be mitigated if the person's contribution to the action was minimal, if the person was uncertain about what he or she was doing, or if the person was subject to forces that made it extremely difficult not to act. Moral responsibility is not mitigated by the fact that one did not act alone, or that one was following orders.

Chapter 2

Ethical Principles in Business

Even when buying vegetables at a farmer's market, customers expect to be treated with honesty, fairness, and respect.

Learning Objectives

2.1 Examine the foundations of moral decision-making in business

2.2 Detail the concept of utilitarianism and how it is applied to business decisions

2.3 Examine a rights-based approach to business ethics

2.4 Explain justice and fairness as key ethical principles

2.5 Analyze an ethic of care as applied to business decisions and practices

2.6 Evaluate an approach to business ethics that combines four main moral standards

2.7 Relate virtue ethics to moral decision-making in business

2.8 Differentiate unconscious and conscious moral decision-making processes and implications