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Chapter 2

Conditions for Rational Choice

This chapter presents three specific conditions that any rational decision must satisfy. Briefly, they are:

- *The generalization test.* A rational choice must be generalizable.
- *The utilitarian test.* A rational choice must maximize utility, subject to the other conditions for rationality.
- *The virtue test.* A rational choice must be consistent with who you are and why you are here.

I will explain these shortly, but it is important to recognize that no explanation can fully convey their meaning. They can be understood only in application. Properly applying the conditions is a sophisticated skill that is developed with diligent practice. The rest of this book provides many opportunities to practice, and life provides many more.

JENNIFER'S CHOICE

Let's begin with an ethical dilemma that will serve as a running example as we discuss the conditions for rational choice. It is fictitious but similar to situations that business students frequently encounter.

While interviewing for jobs, MBA student Jennifer learned about a very attractive opening at Glamour Finance in New York City. It matched her interests and abilities perfectly. She interviewed on site, and everyone expressed enthusiasm about her potential for helping clients to realize their business goals. Shortly after the interview, however, Glamour announced a hiring freeze, due to a global financial crisis. The freeze dragged on through much of the spring semester, and Jennifer's contacts at Glamour could not predict when it would be lifted.

In the meantime, Jennifer received two reasonably good offers from firms with which she had interviewed before going to New York City. She tried to keep her options open, but graduation was near, and her classmates were talking about the great job offers they had accepted. Her parents were asking about her prospects. Her best friend Heather urged her to get real and accept a job. Finally, when her offers were about to expire, she signed with Midwest Consulting, which is based in a small city.

About a week later, Jennifer received a call from Glamour announcing that the firm was hiring again. Her employment contract was ready to sign. Distraught, she told Heather about her rotten luck. Heather's reply was, "What's the problem? Just tell Midwest that an unexpected opportunity came up. Employers understand that these things happen."

I have conducted a number of discussions of this dilemma. People cite a variety of reasons why Jennifer should accept the New York job: Midwest will have no problem finding someone else, Jennifer will be happier doing a job she likes, there is probably an escape clause in the employment contract, employers sometimes renege on job offers and should expect the same from employees, and so forth. However, others point out that Jennifer made a promise, a contract is a contract, she cannot expect employers to play fair with her if she does not play fair with them, the opposing arguments just rationalize self-interested behavior, and so forth. Generally people walk out of the room with the views they initially expressed, and we get nowhere toward resolving the issue. So it goes with most ethical dilemmas.

The problem is that people talk past each other, exchanging arguments that seem to convince only those who already agree with the conclusion. There is no rational convergence, and people tend to lose faith in the ability of reason to resolve such disputes. Our approach in this book will be to avoid advancing arguments merely because they sound reasonable, but to discipline ourselves to apply only the conditions of rational choice. This will allow us to make some progress toward resolving the issue.

However, you must be patient. No resolution of Jennifer's dilemma will be possible until all three conditions mentioned at the beginning of the chapter have been introduced, and even then the analysis will be incomplete. One can't do triple integration on the first day of calculus class, and it is the same in ethics. But considering that most ethical debates get nowhere, even modest progress toward resolution should be a welcome departure from the norm.

THE GENERALIZATION TEST

The conditions for rational choice are based on a simple premise: There must be a reason behind every action. I will defend this premise shortly, but first I want to derive the generalization test from it.

The Basic Argument

If I have a reason for my action, then the reason *justifies* the action for me. This is what reasons do: They justify the actions for which they are reasons. Yet if a reason justifies an action for me, then it justifies the action for anyone. Either the reason justifies the action or it doesn't. If it does, then it justifies the action for anyone to whom it applies.

For example, suppose I notice a display of wristwatches in a shop. They are not protected under glass but are readily available for the taking. No clerks or security personnel are in the vicinity, and there are no surveillance cameras. I could easily pocket one of these and stroll out of the shop. Let's suppose that I decide to steal one of the watches because I can easily get away with it. Then I am committed to saying that anyone who can easily get away with stealing a watch should do so. If ease of theft justifies stealing, then it justifies stealing.

I may protest that this reason doesn't work for everyone, because not everyone cares to have a new watch. Then I actually have two reasons for stealing the watch: I can get a free watch without risk of being caught, and I would like to have a new watch. To be consistent, I must say that theft is justified for anyone who wants a new watch and can easily get away with stealing one. When I choose to steal for these reasons, I am choosing theft for anyone who has the same reasons to steal.

But now I am caught in inconsistency. I have adopted a policy of theft for everyone who wants a new watch and can easily get away with stealing one. But if all such people were to steal watches, it would no longer be easy to steal the watch and get away with it. The shop owner would

have discovered that most customers are thieves and would secure watches in a locked case. The only reason I can steal is that others are honest enough not to do the same. I therefore don't choose for others to steal watches after all, because this would frustrate my own purposes. I am inconsistent: By choosing to steal, I choose theft for others who have my reasons to steal, and yet my reasons presuppose that they don't steal.

Stealing the watch fails the *generalization test*, which can be phrased as follows:

- *Generalization test. The reasons for my action should be consistent with the assumption that everyone who has the same reasons acts the same way.*

I am not saying that everyone with the same reasons *would* steal a watch if I did. I am making no prediction about what other people would do. I am only observing that *if they all* followed my example, the reasons for my own theft would no longer apply. This is enough to show inconsistency. Nor am I saying simply that I wouldn't *want* others to steal watches. This is not enough to establish inconsistency in my reasons for stealing. The specific test is whether my reasons for stealing would still apply if all others with the same reasons to steal did so. They would not.

To take another example, let's suppose that a student is tempted to cheat on an exam because it will improve his grade and career prospects. To apply the generalization test, imagine that students cheated whenever these same reasons apply (i.e., practically anytime they take an exam). Grades would be practically meaningless, because nearly everyone would make all As. Cheating would no longer improve the student's career prospects. The student's reasons for cheating are therefore inconsistent with the assumption that others who have the same reasons to cheat do so. Cheating for these reasons fails the generalization test and is therefore irrational and unethical.

Corollaries of the Generalization Test

The cheating example suggests a restatement of the generalization test that is less precise but sometimes helpful:

- *Corollary 1. An action is unethical if its general adoption would undermine a practice it presupposes.*

Cheating fails this test because it undermines the practice of grading. This is not actually a restatement of the generalization test but a *corollary*, or a more specific form of the test that an action must pass if it is to pass the original test. Yet an action that passes a corollary may fail the original test.

For example, suppose I build a cabin in a Deep Green Forest because I can afford to do so, I want to live in an unspoiled area, and I particularly like Deep Green Forest. Let's suppose further that if everyone satisfying these conditions built a cabin, the cabins would spoil the forest. My action does not undermine a practice that it presupposes, in any clear sense, and so it passes Corollary 1. But it clearly fails the generalization test.

Another corollary of the generalization test is the *free rider* principle, which is again vague but sometimes helpful:

- *Corollary 2. One shouldn't be a free rider on the efforts of others.*

A literal case of free riding occurs in some European countries where public transit passengers are normally not asked to show their tickets. Riding without a ticket is unethical because it presupposes that others who have similar reasons to ride for free nonetheless buy a ticket. If they didn't buy tickets, it would be impossible for anyone to ride for free.

A third corollary is particularly useful. It applies when I have two types of reasons for my action: the circumstances are right to perform the action and the action achieves the desired purpose. For example, I build the wilderness cabin when the circumstances are right (I can afford it, I want to live in an unspoiled area, and I particularly like Deep Green Forest), and I can achieve a certain purpose by performing the act (live in an unspoiled area). Let's say that an action is *generalized* when everyone for whom the circumstances are right performs the act. Then the generalization test implies the following:

- *Corollary 3. An action is unethical if generalizing the action is inconsistent with achieving its purpose.*

Thus if my action of building a cabin is generalized, it would be impossible for those who move into cabins to achieve the purpose of the action. The action fails Corollary 3 and therefore the generalization test.

A subtle point arises when generalizing an action is consistent with its reasons in a particular case but not in general. Suppose I build a cabin in a corner of Deep Green Forest that happens to be almost completely surrounded by a national park, where no one can build cabins. If everyone with my reasons for building a cabin in Deep Green Forest did so, the reasons would still apply in my case. I would still live in an unspoiled area, thanks to the national park, even though everyone else in the forest would lose this benefit. (The fact that my cabin is in the corner of the forest is not one of my reasons for building it. It is enough that the cabin be secluded.) My action is nonetheless ungeneralizable because it is impossible for *everyone* to enjoy seclusion if everyone with these reasons built a cabin.

- *Corollary 4. An action is unethical if generalizing the action is inconsistent with the possibility that everyone who performs the action achieves its purpose.*

Why Acts Must Have Reasons

This whole affair is based on the premise that acts are based on reasons that are taken to justify the action. The source of this premise is a deeply held Western tradition that free agents are *rational* agents and therefore act for a reason. This allows us to distinguish free action from mere behavior, even if we subscribe to a scientific worldview that sees all of our actions as the inevitable result of physical causes.

If a mosquito bites me, this is mere behavior. I don't judge the mosquito morally, because it didn't "freely choose" to bite. The bite was merely the result of chemical reactions in the mosquito's body. Human actions can also be given a causal explanation of this kind, but they can be explained in a second way: by talking about the agent's reasons. It makes no sense to say that the mosquito bit because she thought to herself, "I'm going to bite that human because I'm hungry and I think I can get away before I get swatted." However, it is often very reasonable to explain human actions by attributing reasons to the agent. The action is explained as the outcome of rational deliberation as well as the result of physical causes.

The behavior of computers and robots may someday be more easily explained as the result of the machine's own deliberation than as the outcome of an algorithm. This would make machines moral agents that are bound by ethical obligation, no less than humans.

When the reasons for an action are inconsistent, as when they fail the generalization test, they are not reasons. Inconsistent reasons cannot explain behavior. An action taken for inconsistent reasons is therefore not really an action, but mere behavior. It is like the mosquito's bite, which can be given only a causal explanation. This is why I assume that there must be a reason behind every action.

This is not to say that we humans never conduct ourselves unthinkingly or from habit. We do all the time, and probably must, because constant decision making would be unbearable. But we also choose to cultivate habits or allow them to continue, and we are ethically responsible for these choices.

Identifying the Reasons for an Action

If the generalization test is to apply to the reasons for an action, then we must identify what the reasons are. Ultimately, the reasons are what we choose them to be, but it is important to identify what we have chosen.

The basic rule is that the reasons must be necessary and sufficient for the action. Each reason must be *necessary* in the sense that if it did not apply, I would not perform the action. Thus I would not steal a watch if either of my reasons for doing so were absent—if it were not easy to get away with it or if I had no desire for a new watch.

The reasons as a group must also be *sufficient* in the sense that I would be willing to perform the act whenever they all apply. If I would steal a watch whenever I wanted a new one and could get away with the crime, then these reasons are sufficient for the theft. If I would not, there must be other reasons I am stealing it.

The necessity criterion prevents us from framing our reasons so narrowly that every action is generalizable. For example, Gertrude Grosvenor might insist that she stole a watch because she wanted one, she could easily get away with it, and her name is Gertrude Grosvenor. She protests that her reasons are generalizable, because she could just as easily get away with stealing the watch if all the Gertrude Grosvenors of the world stole watches.

This is the problem of *scope*. Gertrude passed the generalization test by drawing the scope of her action too narrowly. Her name has nothing to do with whether she steals. If it did, then she would stop stealing the moment she discovers a birth certificate in her mother's attic showing that her real name is Genevieve Grosvenor. But she wouldn't stop stealing on this account. Her name is not one of her reasons for stealing.

In general, the scope of an action is the set of circumstances under which it would be performed. The scope is too narrow when unnecessary reasons are cited, and it is too broad when some necessary reasons are left out. The adjustment of scope will often prove to be a subtle and difficult aspect of judging an act. But if an ethical theory were not subtle it would be inadequate for the complex situations life presents us.

Jennifer's Choice

Recall that Jennifer faces a decision as to whether to break her employment contract with Midwest Consulting, so she can accept a more attractive offer at Glamour Finance. Let's check whether taking this act passes the generalization test. To do so, we must identify the reasons for her choice. The most obvious reason is that she prefers an employment contract with Glamour.

Breaking an employment contract to get a better one is not generalizable. If students broke their employment contracts whenever they got a better offer, companies would not bother with contracts that promise employment in the first place. The whole point of promising employment is that, in return, the company can rest assured that the student's job search is over and will work for them. If Jennifer's action were generalized, she wouldn't be able to get the contract she wants with Glamour, because Glamour would not be issuing contracts that promise employment. This makes the breach of contract ungeneralizable and unethical.

We can say something stronger. Jennifer's breach of contract would be unethical even if she had no desire to contract with another firm, but simply found it convenient to break the agreement.

By definition, Jennifer cannot break an employment contract without having made the contract. Breaking the contract is therefore ethical only if making *and* breaking the contract is an ethical act. But making a contract and then breaking it simply for convenience is not generalizable. It would be impossible to make an employment contract in the first place if everyone broke contracts whenever it is convenient to do so.

Jennifer may protest that I have drawn the scope too broadly, because her reasons are more complex than I have made out. She acted in good faith all along. The offer from Glamour was unexpected, and she didn't interview after signing with Midwest. These are all part of her reasons. Making exceptions in such cases may be consistent with the practices that make employment contracts possible.

Yet on reflection, this, too, fails the generalization test. Imagine what it would be like if students were always willing to accept an unsolicited offer after signing a contract for a less-attractive job. Companies would keep making them offers in the hope of luring them away from the jobs they had accepted. Again, the employment contract would not mean that the job search is over, and companies would have no reason to offer contracts that promise employment.

It would be like an auction at which the auctioneer keeps accepting bids after shouting "sold." The bidding would never be over. Auctions would be impossible, because people would never know when they have bought the merchandise.

There may be another way for Jennifer to escape from her commitment to Midwest. Employment contracts often have some kind of escape clause for both parties. In fact, contracts frequently do not actually promise employment, but only the salary and other terms as long as the employment lasts. Conversely, the employee may have the option of resigning at any time without penalty, perhaps after giving notice, such as two weeks. Jennifer might therefore decide to give notice even though she has not started work.

Let's grant that this maneuver is legal. The difficulty is, from an ethical point of view, she promised more than this. Everyone recognizes that a change in life circumstances may require a change of job, such as marriage, children, or unexpected financial problems. Or after working at a company for a while, one may be ready to move on to another position. In such cases, giving notice is reasonable and expected. But barring unforeseen circumstances, Jennifer promised to work for Midwest *for the time being*. Again, the whole point of signing with Midwest is to indicate that Jennifer has made up her mind where to work, whatever may be the technical terms of the contract. Similarly, the whole point of Midwest's offering a job to Jennifer is to indicate that the company has made up its mind whom to hire, whatever "employment at will" language may appear in the contract. Midwest is promising to employ her *for the time being*, unless there is an unexpected change of circumstances, such as company bankruptcy or Jennifer's failure to perform satisfactorily. Companies sometimes renege on their promise, but this doesn't make it right to do so, or show that it is permissible for Jennifer to renege.

This analysis does not tell Jennifer precisely how long she must work for Midwest to honor her agreement or how long the company must employ her. But it at least tells her that the two-week notice maneuver is unacceptable.

The whole situation changes, of course, if Midwest releases Jennifer from the contract. She might go to Midwest to explain the situation and learn that the company has found another MBA student whom they would actually prefer to hire. Jennifer and the company therefore agree to forget about their employment contract. This is clearly generalizable, because the practice of employment contracts is not undermined if they are abrogated only with mutual consent.

The consent must be genuine, however. If Midwest releases Jennifer from the contract only because they see that they are going to lose her anyway, this is not consent. From an ethical point of view, Jennifer is in breach of her promise to work for Midwest, whatever may be its legal status.

As a last resort, Jennifer might concede that breaking her contract is problematic but insist that the circumstances justify it. At Midwest she would be bored and unmotivated, while at Glamour she will be enthusiastic and much more likely to keep customers happy. Midwest can easily find someone else qualified for their job, while she is uniquely suited to the Glamour job. Can these considerations override the generalization test? Or to put it differently, can the end justify the means? I will deal with this issue shortly, when I discuss the second condition for rational choice.

Judging Generalizability

The generalization test requires that we judge the consequences of generalizing an action. This raises the question of how we can really know what the consequences of a generalized action would be. For example, Jennifer may ask how she can be sure that companies would keep making offers if students would accept them. Fortunately, it is not necessarily to *know* the consequences of generalizing an action. It is only necessary to be consistent in one's beliefs. The generalization test, like all the rationality tests, is a test for logical consistency.

Thus if Jennifer's beliefs about how the world works imply that she would be unable to make and break an employment contract if all students did so, then her action fails the generalization test. Similarly, if my beliefs about the world imply that the shop would lock up its watches if customers regularly stole them, then my theft is not generalizable. The generalization test can therefore be more precisely stated.

- *Generalization test (refined). The reason for my action should be consistent, based on my understanding of how the world works, with the assumption that everyone who has the same reason will act the same way.*

Suppose, however, Jennifer refuses to acknowledge that employers would continue to make offers if students accepted them after signing. Then she may claim that her beliefs about employer behavior are consistent with the possibility of generalizing her actions. In this case we must ask whether her refusal is reasonable, given her experience and her other beliefs about the world. If not, no rational reconstruction can be given for the thinking behind her behavior. This means that breaking the contract is not an action, and therefore not an ethical action. To be ethical, she need not be *right* about whether employers would continue to make offers, but only *rational* in her beliefs about it.

Professional Ethics

A central issue for business ethics is how to understand professional ethics, which sometimes seems to impose obligations that conflict with ethics in a broader sense. A business executive, for example, may be professionally bound to lay off workers, or pollute the environment within legal limits, for the sake of profits—even when this hurts people. Similar dilemmas arise in other professions. A physician may be professionally obligated to withhold a cancer drug from patients because it has not been governmentally approved, even when it could save lives.

The generalization test plays a central role in analyzing professional obligation. To see why, it is helpful to think about why we have professions. They assure the public that it can expect a certain standard of conduct from members of the profession. Professional standards relieve patients of the burden of investigating the background of every physician who might treat them, or businesses the burden of administering a CPA examination to every accountant they hire.

This is not only socially efficient but holds every member of the profession to a promise. An individual who walks into an examination room wearing a long, white coat and displays medical diplomas on the wall makes a promise to the patient waiting there. She promises to conform to

the standard of conduct that the medical professional has led the public to expect. Accountants who write "CPA" after their name promise to adhere to generally accepted accounting practices. Because the duty to keep a promise is grounded in the generalization principle, it typically plays a prominent role in the analysis of professional obligation.

Settling issues of professional obligation actually has two components. One is an empirical matter of determining what the profession has in fact led its clients to expect. Exactly what does the business executive promise stockholders, and what does the physician promise patients? The other is the ethical matter of when there is an obligation to keep these promises, particularly when doing so can cause harm. This is an issue that arises with promise keeping in general and can be treated with the same type of analysis. Even in everyday nonprofessional life, we sometimes find that our promises conflict with other obligations and must decide what to do about it.

Professional ethics is therefore not a different kind of ethics that may be at odds with general ethics. It is a particular kind of promise-keeping obligation that is considered along with the other elements of a case and evaluated with the same conditions for rational choice. This means that we can't make blanket statements about what professional obligation requires. We can't say that an executive's fiduciary obligation to owners always requires profit maximization within the law, or that a physician must always go by the book. It depends on the particulars of the case.

Fiduciary Duty to Stockholders

Fiduciary duty requires closer examination, because it is frequently cited as justification for taking whatever action may be necessary to maximize profit. "Fiduciary" literally means loyalty, and fiduciary duty is normally interpreted as a duty to be loyal to stockholders by advancing their financial interests. This most closely describes the position of board members and senior executives, as opposed to middle managers and other employees. When someone joins the board of directors or signs on as CEO, there is at least an implicit promise to represent the financial interests of the owners.

The first point to recognize is that the owners are ultimately responsible for the actions of the firm. If the firm shuts down a plant and moves its operations to a low-wage country, for the sake of profitability, the owners are responsible for this decision. If it is unethical, the owners are unethical. So the fundamental and prior question always is, is the action in question an ethical choice for the owners? If so, then board members and executives carry it out on their behalf in good conscience. If not, we must ask whether the directors and top executives of the firm are nonetheless obligated to carry out the action to keep their fiduciary promise.

As with professional obligation in general, this is a promise-keeping issue that must be resolved one case at a time. We might anticipate, however, that only in fairly unusual situations is one obligated to act on behalf of someone for whom the action would be unethical. The directors have specific duties that are mandated by the corporate charter or by law, but the law rarely requires strict profit maximization, as is often supposed in the popular imagination. The key point is this: The mere fact that an action maximizes profit does not establish a fiduciary obligation to carry it out, particularly if it is unethical for the owners. Further argument is required.

The situation is different with employees other than top executives. Their duties to the firm derive from their employee contracts, instructions from superiors, and the expectations associated with their specific positions. Fiduciary obligation is not directly relevant, except to the extent that their specific duties tend to enhance profitability. In fact, if superiors instructed them to take actions that reduce profitability, they would normally be obligated to do so. The common defense that "I must do this because I have a fiduciary duty to maximize profits" is therefore invalid for employees other than the most senior executives.

Exercises

1. Give a simple argument that breaking a promise, simply because it is convenient to do so, fails the generalization test. Note that one can break a promise only if it is possible to make a promise.
2. Give a simple argument that lying, merely for convenience, fails the generalization test. Assume that the lie would achieve its purpose only if it is believed.
3. As an ambulance driver, you normally use a siren and flashing lights only for an emergency. At the moment you are driving the vehicle to an important meeting with your boss that may determine whether you will be laid off due to budget cuts. You lingered a bit too long at lunch before departing and therefore turn on the siren so that you can arrive on time. Suppose for the sake of argument that this is legal. Is it generalizable?
4. The situation is the same as in the previous exercise, except that you are running late because of a very unusual traffic jam on the route. You can still arrive on time by using the siren. Is this generalizable? What exactly is the scope in this case? *Hint*: If you are willing to use the siren due to a traffic delay, would you be willing to use it for other kinds of delay? Why not?
5. While walking down Fifth Avenue in New York City, you see a \$100 bill on the pavement. You take the money and spend it because you have no way of knowing who dropped it. This is legal, but is it generalizable?
6. You shop at a grocery that arranges milk bottles so that the oldest ones are in front and the freshest in the rear. You reach behind the older bottles to select the one at the very back. Your reason for doing so is to obtain the freshest milk. Does your behavior pass the generalization test?
7. As you are about to board an aircraft, it is announced that the plane will be boarded by zones to expedite the process. However, you would like to board before your zone is called to make sure you can find space for your carry-on luggage in an overhead compartment. Is this generalizable?
8. While commuting home from work, you take a detour through a residential area to avoid a congested main artery. Because only a few drivers take the detour, it removes several minutes from your commuting time due to the light traffic. Is your action generalizable?
9. In the previous exercise, suppose that a few commuters can drive through the residential area unnoticed, but if many cars used the detour, the traffic would become a noisy and hazardous nuisance in the neighborhood. Does this have a bearing on the generalizability of your action?
10. In Exercise 8, suppose that you are taking the detour only because few people know the city as well as you do. If many people knew about the detour and were nonetheless avoiding it, you would follow their example. Is your action generalizable?
11. *Music shop temptation*. While browsing in a music shop, you spot a CD recording of Arnold Schönberg's *Pierrot Lunaire*. You love this piece, but you are absolutely certain that no one else within a thousand-mile radius can bear listening to this abstract atonal music. The shop is lax about security, and you can easily walk out with the CD without being noticed. You conclude that stealing the CD, because of your unique affection for what others regard as incomprehensible noise, is generalizable. Are you right?
12. Police have closed one lane of a highway due to an accident. A long queue of traffic has formed in the lane that remains open, because drivers slow down to view the accident. However, a few drivers bypass the queue by driving along another lane up to the point of closure and then rely on polite drivers to let them merge at the front of the queue. Is this behavior generalizable? Assume it is legal.
13. In the previous exercise, is it generalizable for a driver at the front of the queue to allow someone to merge? Assume it is legal.
14. You decide to play in an amateur tennis tournament because you know you are the best player in town and will certainly win the trophy and prize money. This is the only reason you are playing the tournament. Is your decision to play in the tournament generalizable? If not, under what sort of rationale would your entry in the tournament be generalizable?
15. You are considering whether your cable TV business should enter the market in Anywheresville, which presently has no cable service. You expect a few other cable companies will do the same. However, past experience in towns of this size shows that only one cable provider will survive. Your only reason for entering the competition is to drive the other companies out. Is a decision to enter this market generalizable?

16. *Damage expense.*¹ Chris is a new hire at a manufacturing company, which pays his moving expenses. However, the movers seriously damage an expensive piece of furniture. The insurance covers only a small fraction of the cost. Chris mentions this to his boss Bob, who tells him to cover it by padding his expense account over the next few months. Chris is surprised by this suggestion, because in their previous conversations, Bob has impressed him as having a high sense of business ethics. (a) Is it generalizable for Chris to pad the expense reports? Be sure to state the scope clearly. (b) Suppose coworkers tell Chris that this kind of padding goes on all the time at the company. Does this change the analysis?
17. *Upgrading the refinery.* You are plant manager at a refinery that meets all environmental regulations. However, the mayor of a nearby community is pressuring you to install new technology that would reduce emissions below mandated levels. You respond that your plant is more cost-efficient than some of your competitors because they bore the cost of installing the new technology. Putting the equipment in your plant would erase this advantage and perhaps result in a plant shutdown. However, the mayor, who has taken a course in Ethics as Rational Choice, points out that your rationale is not generalizable. If all plants followed your example, then keeping the old technology would no longer make your plant the most cost-efficient. How should you respond?
18. Ordinarily, an action that fails the generalization test would continue to fail if the scope were broadened. This is because a rationale is less likely to be generalizable when it applies to more people. However, there are exceptions. Can you think of one?

THE UTILITARIAN TEST

The reasons for our actions often have a means–ends structure. You may attend class in order to improve your grade, but the grade is itself a means to a degree, which perhaps is a means to a better job, which is itself a means to acquiring happiness, serving others, or whatever. At some point, this regress must reach an *end* or ultimate purpose, or perhaps several ends, if it is to justify any of your actions as means.

We obviously cannot justify our actions in this way unless we get straight on what our ends are. Once we do that, to be rational, we must choose actions that are means to these ends, rather than means to something else or to nothing in particular. We often fail to meet even this simple condition, particularly in the business world. It is easy to get caught up in the struggle of competition and forget what it is all for. Yet we cannot decide how much to sacrifice to maximize stock price until we have determined what we are ultimately trying to accomplish. Almost certainly, a high stock price is not an end in itself, because we wouldn't care about it unless it were necessary to achieve some further end. To be rational, we must identify this end.

Maximizing Utility

Utilitarianism, in its simplest form, suggests that we have or should have some ultimate end that might be called *utility*. This could be pleasure, happiness, or whatever you prefer. High grades, a good job, and a big salary are instrumentally good, while pleasure and happiness are perhaps inherently good. Rationality requires us to decide what is inherently good and aim for it consistently.

We can take this a step further, and this is a crucial step. Suppose I regard happiness as inherently good, my ultimate goal. If creating happiness justifies an action, then creating *anyone's* happiness justifies the action. Otherwise it is not happiness, in and of itself, that justifies the action, as we are supposing. This means that if I can do something to make people happier, I will want to do it. Otherwise I don't really believe happiness is inherently good! I must, in some sense,

maximize utility across the whole population, or as the traditional formula goes, achieve the greatest good for the greatest number.

I may protest that *my* happiness is inherently good, not just anyone's. It is my happiness that justifies my action, not happiness in general. But to be rational in distinguishing my happiness from someone else's, there must be some difference that justifies the distinction. If my happiness is somehow of a different quality than everyone else's, then at least I am internally consistent. But I really don't want to claim this. I just arbitrarily distinguish my happiness from that of others. An arbitrary distinction, however, is an irrational one.

Many people find this simple argument unconvincing, perhaps due to the heavy emphasis our society places on self-interest as a motivator. It may be helpful to think about disutility rather than utility. Almost anyone would grant that it is as bad to do harm to another as to oneself. But why? To be rational, we must justify this view. One possible justification is that if we regard harm as inherently a bad thing, in and of itself, then to be consistent we must try to avoid doing harm to *anyone* (except when it would prevent a greater harm). Harm is harm, regardless of who suffers it. The same argument applies to positive utility.

There are various senses in which I can maximize utility. One is to achieve a *Pareto optimal* state of affairs, which means that if I can do something to make one person happier, without reducing the happiness of anyone else, then I will do it. But maximization is normally understood in the stronger sense that it maximizes the *net sum* of utility across all persons. That is, a small utility loss for one person is outweighed by a greater utility gain for others.

While rationality seems clearly to require a Pareto optimum, it is hard to argue rigorously that it requires maximizing the sum. Nonetheless, I will adopt the working hypothesis that it does. Almost anyone would say that it is better for one person to sacrifice a little if it relieves millions from misery. This follows from the utilitarian test if we take the sum of happiness as the relevant criterion.

- *Utilitarian test. An action is ethical only if no other available action creates greater total net utility.*

It may seem an impossible task to measure happiness in a way that allows us to add it up. But we need only judge whether there is *more* happiness in one outcome than in another. It may not be necessary to arrive at a number that measures the amount of happiness. If alternative A results in a cure for malaria and alternative B a cure for ingrown toenails, we know what to do without putting any numbers on it. When some kind of numerical calculation is necessary, we will see, in the next chapter, that utility theory provides some reasonable ways to do it.

Another issue is that we may want to recognize multiple ends that are desirable for their own sake. Perhaps knowledge, beauty, love, and freedom are valuable irrespective of whether they are associated with happiness or some other good. This raises the problem of how to trade them off when they conflict. Ideally, our goal structure should incorporate some ranking of goals. Value pluralism remains a deep problem and has been the focus of much research in ethics.² It is not a major issue, however, in most of the dilemmas analyzed in this book.

A related problem arises when ultimate ends are not universally shared. Perhaps some people find the experience of political freedom or unspoiled wilderness to be intrinsically valuable, apart from whatever pleasure or satisfaction they may bring. It is unclear why these persons should be committed to maximizing freedom or wilderness experiences for those who place no intrinsic value in them. For present purposes, we will suppose that they are obligated to maximize these values only for those who care about them. This matter obviously requires deeper thought for a satisfactory resolution.

Expected Utility

When the consequences of an action are unpredictable, it may nonetheless be possible to identify a few possible outcomes whose probability can be estimated. One can then calculate the *expected* utility of the action and apply the utilitarian test on that basis.

Suppose, for example, that a farmer is considering whether to plant a crop of wheat. Due to weather and other factors, it is impossible to predict the size of the yield, but the farmer knows from experience that a good year yields a profit of \$50,000 and a bad year brings a loss of \$20,000. Historically, 30% of years are good years and 70% are bad. If we let profit be a measure of utility, then the expected utility is a weighted sum of the outcomes, where the weights are the probabilities:

$$(0.3)(\$50,000) + (0.7)(-\$20,000) = \$1,000$$

The expected utility can be viewed as the average annual utility that would result over many years. Because the expected utility in this case is positive, planting the crop is (slightly) preferable to planting nothing, from a utilitarian point of view.

Jennifer's Choice

Jennifer argues that breaking her agreement with Midwest will lead to a better outcome. The job at Midwest doesn't require a person with her unique resume. There are plenty of qualified MBAs who can replace her, and she would be personally unhappy in the Midwest job. Her qualifications and enthusiasm for the Glamour job will create significantly more value for its clients than their second-choice employee would. It is true that she may create a bad reputation for herself at Midwest by breaking her word, and this could prevent her from making the contributions of which she is capable. But Midwest is a small firm in a small city, and we can suppose that its reaction will have minimal effect on her career.

This is a utilitarian argument. Using any reasonable definition of utility, Jennifer can convincingly argue that breaking the agreement will result in at least as much utility as keeping it. She considers her own welfare as well as that of others, but this is appropriate, because everyone's welfare figures into the utilitarian assessment, including hers. Breaking the agreement therefore passes the utilitarian test.

It does not follow, however, that breaking the agreement is ethical. To be ethical, the action must pass *all* the tests for rational choice. Breaking the agreement fails the generalization test and is therefore unethical.

Does the End Justify the Means?

There is a lingering problem with Jennifer's case, however. Taking the Glamour job not only creates as much utility as taking the Midwest job, but it creates *more* utility. This seems to imply that Jennifer has an obligation to take the Glamour job. Does creating more utility justify breaking the employment agreement with Midwest? Briefly put, does the end justify the means?

Not if the means is unethical on other grounds. The utilitarian test says that an act is ethical only if no other available *act* creates greater utility. Strictly speaking, breaking the agreement with Midwest is not an act because it violates the generalization test and therefore has no consistent

rationale. So the utilitarian test does not require Jennifer to take the New York job. Let's restate the utilitarian test to clarify this:

- *Utilitarian test (clarified).* An action is ethical only if no other available action creates greater total utility and meets the other conditions for rational choice.

In other words, the utilitarian test can never *override* another condition for rational choice. All the conditions for rational choice must be met. One should never violate the generalization test to achieve greater utility, no matter how desirable the outcome.

This may seem too strict. One thinks of Jean Valjean, the famous protagonist of Victor Hugo's novel *Les Misérables*, who stole a loaf of bread to feed his starving family. If his theft violates the generalization test, then it is unethical, regardless of what is at stake. But this is a big "if." Remember that the generalization test is applied to the reasons for an action. Stealing a loaf of bread merely to save money is probably ungeneralizable, but Jean Valjean's reasons had a much narrower scope. He stole only because he was penniless and his family was starving. This is a different rationale that may pass the test.

The end never justifies an unethical means, but the means may be ethical if the end is built into the rationale for the act. This was not the case for Jennifer, incidentally. Even if creating greater customer and job satisfaction were part of the rationale for her act, the rationale would still be ungeneralizable.

Too Much Altruism?

The utilitarian criterion may seem much too demanding. As long as there is poverty and suffering in the world, I can increase utility by giving what I have to the less fortunate. They would gain more than I would lose, until I give so much that I am not much better off than they. Must I impoverish myself to be ethical? This kind of generosity is perhaps laudable, but surely it is not obligatory.

The situation is similar for a business. A wealthy corporation could relieve much suffering through massive charitable contributions to world health, famine relief, and so forth. Certainly, if the company were too generous, it would lose profitability and perhaps go out of business, thereby losing the ability to create any sort of utility. Yet the utilitarian test seems to require it to donate as much as is consistent with its ability to continue making donations and maximize total utility. Few corporations are willing to operate in this mode.

The fact that the utilitarian condition is demanding does not show it is wrong. Yet it only demands that we maximize utility consistent with generalizability. The reason I would impoverish myself to help others is presumably that it would increase total utility. But if everyone who is in a position to increase utility in this fashion did so, there would be too little left to maintain a productive economy. We would have too few resources left to support the infrastructure, educational system, and capital investment necessary to create the kind of wealth I can presently give away. So if sacrificial generosity were generalized, it would not accomplish my purpose of increasing utility and would in fact reduce utility. It therefore fails the test. Note, by the way, that it does not fail the test simply because universal sacrifice would make us worse off. It fails because universal sacrifice is inconsistent with my reason for being sacrificial, which happens to be to increase total utility.

On the other hand, a reasonable degree of generosity is consistent with maintaining a productive economy even when it is generalized. The utilitarian test obligates me to be as generous as I can, subject to the condition that equal generosity on everyone's part would be consistent with achieving the goal of increasing total utility.

The same applies to the owners of a business. They are obligated to contribute as much as possible to causes that increase overall utility, consistent with the ability of the business system to continue to raise capital and support a productive economy if all businesses were equally generous.

The Role of Self-Interest

Even with all the above qualifications, the utilitarian test may seem to set an unreasonably high standard for mere human beings. While my own utility counts in the utilitarian calculation, every other person's utility receives equal weight. This seems to require me to consider the whole world in every decision. Yet in practice, I find it hard enough to take care of myself, perhaps along with my family and friends.

Ethics never requires us to do what we cannot do (*ought* implies *can*). The utilitarian principle, in particular, asks us to select an *available* action that maximizes utility. An action beyond our powers is not available.

A utilitarian calculation also recognizes that my actions affect me more than anyone else. I have the greatest control over my own affairs, and as a rule, my efforts are more efficiently applied to improving my own situation rather than someone else's. This means I can often maximize utility by placing the greatest emphasis on self-interest.

The balance nonetheless tends to change as I mature and assume greater responsibilities. As a parent, business manager, physician, or teacher, I have substantial influence over the welfare of those in my charge. Utilitarianism requires that they become a more central element of my decision making. Fortunately, maturity tends to bring a greater capacity to meet this responsibility.

A similar principle applies to business. A company creates utility primarily through the efficient and responsible production of valuable goods and services, because this is what it is best equipped to do. More mature companies can and should broaden their perspective, perhaps by contributing to infrastructure and education.

An obligation to care for others may flow from the other conditions of rational choice as well. We have already noted, for example, that professional obligations to stockholders, patients, or students are based on the generalization principle. We will see that the third condition for rational choice can also impose loyalty obligations toward family, coworkers, and others with whom one has a relationship.

Predicting the Consequences

The utilitarian test asks us to foresee the consequence of an individual action, much as the generalization test asks us to gauge the consequences of a generalized action. Neither requires us to be right about it, but only that we make rational judgments. If I have evidence that action A creates more utility than action B, then consistency requires me to choose action A. However, if the evidence is scarce or ambiguous, and I have no particular reason to believe that one action has better consequences than another, then the utilitarian criterion imposes no particular obligation. Either choice satisfies the utilitarian test.³

This doesn't give me a license to be lazy, however. I can't just say that because I happen to have no evidence either way, I can do whatever I want, without trying to gather some evidence. If happiness is my goal, for example, it is irrational for me to act without making some effort to find out how to create happiness. It is as though I want to drive to a certain shop but don't bother to find out which route to take. If I drive around aimlessly, I am simply irrational. It makes no sense to begin the trip without looking at a map or asking a friend about the route.

How much effort must I exert to be rational? It is a trade-off. If I spend too much time studying maps, then I will have too little time to shop when I arrive. To be rational, I must find a balance between information gathering and action that I can reasonably believe maximizes the utility that results.⁴

Exercises

19. In Exercise 7, does boarding early pass the utilitarian test?
20. *The accidental bank robbery.*⁵ Chris is a relief branch manager for Commerce Trust Bank. His job is to fill in for regular branch managers while they are away. Today he is serving at a bank with several inexperienced tellers. One of them, Carole, comes up \$900 short at the end of the day. She is in a panic, because reporting a \$900 shortage to headquarters would result in automatic termination of her job. On checking the transactions ledger, Chris finds that while cashing a check, Carole misread \$100 as \$1,000 and paid out the larger amount. Fortunately, the check holder is one of the bank's best customers. However, when Chris telephones the customer, he insists that he received only \$100—even when Chris mentions that Carole would lose her job if the money were not returned. Carole is in tears, but Chris must somehow reconcile the ledger. His options are: (a) report the loss, (b) debit the customer's account by \$900, (c) place the amount in a suspense account and let the regular manager resolve the issue at a later time. Which option is likely to maximize utility? *Hint.* If (c) is selected, the regular manager must select (a) or (b).
21. *Back at the music shop.* You are again browsing in the music shop that has a CD recording of Arnold Schönberg's *Pierrot Lunaire* on display (see Exercise 11). You were reluctant to steal it last time, but another thought has occurred to you. The shop will never sell this recording, because everyone else in the world hates this atonal stuff, and it can't be returned to the manufacturer. However, if you steal it, at least you will enjoy the music. Furthermore, as a penny-pinching student you can make better use of the \$12 on the price tag than the shop owners. The rational thing to do is therefore to steal the CD, if you can get away with it. Is this correct?
22. *Irrevocable election.*⁶ Steve is in his second year at a CPA firm. A firm partner discovers that Steve neglected to attach an irrevocable election form to one of last year's tax returns. The form is necessary for the client to avoid a substantial tax liability in subsequent years. The partner reassures Steve that it is a fine point he would have not expected Steve to catch. The client shouldn't have to pay a higher tax due to their mistake, but there is a way to fix it. The partner asks Steve to prepare the election form and attach it to their file copy of last year's tax return. Then he is to prepare this year's tax return as though the election form were submitted last year. There is no need to mention any of this to the client. If questions arise, they will show the IRS the file copy of the form and suggest that the IRS lost it in processing. Does the partner's request pass the utilitarian test? Is it ethical?
23. *Hard choice in Hondo.*⁷ George is manager of an Ardnak Plastics plant in Hondo, Texas. It employs several hundred persons, a large fraction of the local workforce. George's boss, Bill, telephones him from headquarters in El Paso with the news that the EPA will levy fines against Ardnak for excessive smokestack emissions at the Hondo plant. However, Bill won't approve new scrubbers because the company can't afford it. He points out that competitors have escaped EPA fines even though their emissions are higher. Upon investigation, George learns that the competitors avoid fines by scheduling their heavy emissions at night, when the EPA isn't running tests. Meanwhile, Bill has been in touch with the Mexican authorities and mentions to George the possibility of relocating 15 miles south in Mexico, where environmental regulation is lax. This would necessitate hiring Mexican workers and devastate the economy of Hondo. He tells George that he must either avoid the fines or relocate. George therefore has three options: (a) dump the pollution at night, (b) relocate, or (c) resign, in which case his successor will choose (a) because it is the path of least resistance. Assuming that (a) is ungeneralizable, which of these three options pass(es) the utilitarian test?

VIRTUE ETHICS

The first and second conditions for rational choice impose formal conditions on our decisions. The third condition begins to examine the content of those decisions, while still using rationality as a guide. It says that rational decision making must start by making sense of our role in the world. We can't decide what to do until we decide why we're here.

The resulting guidance is in part purely formal and in part substantive. The purely formal part reminds us that purely formal guidance is not enough. It asks us to subscribe to a cultural tradition,

religion, or philosophy that can provide an ultimate basis for decision making. The choice is ours, but however we choose, we must act accordingly. We may also define who we are in part through our choice of career or profession. To be consistent, we must act consistently with this choice.

The second, substantive part begins with the premise that we are rational human beings and deduces that, as such, we must exhibit certain virtues. The resulting guidelines are often called *virtue ethics*. The idea goes back at least to Aristotle and is based on his concept of teleological explanation.

Teleological Explanation

Teleological explanation is a way of understanding the purpose or function of things. (*Telos*, from the Greek, means purpose.) It is not hard to identify the purpose of artifacts like cars or computers, because their designers give them a purpose. But a teleological approach can help us understand other things as well, such as the human body. It is true that science emphasizes causal explanation. It explains respiration, for example, by identifying a complex chain of chemical reactions. Yet the complexity of the human body would be unintelligible if we did not give it a teleological or functional explanation as well. The function of the heart is to pump blood, the function of the lungs is to provide oxygen to the blood, and so on. The molecular biologists who tell us about chemical reactions acquired their first understanding of the body when their kindergarten teachers told them about the heart and the lungs.

Virtues

There is an old tradition that finds a purpose for human life in the scheme of things much as we find a purpose for the organs of the body. We say that the heart's function is to pump blood because it is uniquely suited to do so. Similarly, human beings are uniquely suited to certain kinds of activity. We are rational beings. We can apprehend beauty. We are capable of trust, loyalty, friendship, honor, and courage in a self-conscious way that apparently characterizes no other creature. One might conclude that our purpose here is at least in part to bring these qualities to the world. They are traditionally called *virtues*. No one can prove that this is why we are here, but no one can prove that the heart exists to pump blood. Nonetheless it is a hypothesis that helps us make sense of things.

Humans are also uniquely capable of monstrous cruelty, and one may wonder why this would not also be a virtue. Yet no organ of the body can kill like the heart, because a slight electrical disturbance will do the trick. The heart's pumping behavior, not its ability to kill, helps us to understand how the body works. Similarly, cruelty doesn't help us explain human existence but makes that existence even harder to explain. Rather, it is by regarding human beings as the world's source of rationality, aesthetic sensibility, trust, loyalty, honor, friendship, and courage that we are able to make some sense of our predicament.

Another way to put this is that the virtues are part of our *essence*; they help define who we are. A heart can have two chambers or four, but an organ that doesn't pump isn't a heart. A human being can be tall or short or male or female, but a human being without rationality, without any sense of beauty, with no understanding of friendship, is not fully human.

Integrity

Integrity (wholeness) is the result of being consistent with who we are. The third condition for rational choice is really an ethic of integrity. We lose integrity when we compromise our honor, abandon a friend, or do a shoddy job that is beneath our intellectual ability. There are various psychological expressions for this: We can't live with ourselves, can't look at ourselves in the mirror, can't sleep at night, and so forth. We are no longer whole persons because we have walked

away from who we are as human beings. Yet the third condition does not rely on psychology. It requires us to act in a way that is logically consistently with who we are.

The pressures of business life can make it difficult to develop some of the virtues, such as loyalty and friendship. In Western economies, employees may feel free to depart for greener pastures in the middle of a company project, and the firm may feel free to terminate the employee in mid-career. Workers and managers who share a commitment to each other arguably live fuller lives than those linked only by transitory economic incentives, if only because they can develop their capacity for loyalty and friendship. On the other hand, a competitive business environment encourages one to develop intellectual competence, which is an equally important virtue and equally part of one's essence as a human being.

Virtue ethics tends to be somewhat vague, but in some cases it alone can bring moral clarity. In practice, its applicability depends on whether virtues conflict. If a single virtue is at stake, then it must not be compromised, unless this would require an ungeneralizable act. If conflicting virtues are at issue, however, virtue ethics may provide no clear directive.

Virtue ethics sometimes seems to conflict with the generalization principle. Family loyalty, as well as utility maximization, may require Jean Valjean to commit a seemingly ungeneralizable act of theft. This is an old conundrum and a perennial subject of literature.⁸ It is harder to resolve than apparent conflicts with the utilitarian principle, which calls only for utility maximization within limits set by the other principles.

We will deal with this matter by supposing that virtue ethics cannot override the generalization principle. One justification for this is that virtue ethics is rather vague in the first place, and the generalization principle helps resolve the vagueness. Another is that an act may be generalizable when preserving virtue is one of the reasons for it, thus removing the conflict. A deeper understanding of ethics is necessary to resolve this issue completely, but it is only occasionally a pivotal factor in business decisions.

Jennifer's Choice

A virtue ethics perspective would argue for Jennifer's accepting a job in which she could develop her abilities, such as the Glamour Finance job. Walking away from Midwest Consulting is perhaps not a breach of loyalty, either, because no relationship has really been established. On the other hand, a breach of agreement would compromise Jennifer's honor and integrity. Honor is part of integrity, because it is part of who we are.

It is never consistent to act contrary to a virtue, unless it is for the sake of another virtue. In this case, however, there is a conflict of virtues, and virtue ethics provides no clear verdict. The best Jennifer can do is to try to strike a balance. The ancient Greeks viewed the ability to find a balance as itself a virtue, which they called *sophrosyne* (a word with no English equivalent).

In this case, the best compromise may be to stay with Midwest, where Jennifer can still look for opportunities to develop her talents to the utmost. For example, with sufficient cleverness and persistence she may persuade the company to introduce a new analysis tool that will better serve customers and perhaps attract national attention. On the other hand, if she leaves Midwest, there is little she can do to mitigate her loss of honor.

The following scorecard sums up the ethics of breaking the Midwest employment contract:

1. Generalization test: *Fail*.
2. Utilitarian test: *Pass*.
3. Virtue ethics test: Inconclusive, but leaning toward *fail*.

Because an act must meet all the conditions to be ethical, breaking the contract is unethical.

Exercises

24. *Retirement fund recommendation.*⁹ John is a portfolio analyst for Metropolitan City Teachers' Retirement Fund (MCTRF). His boss Mary has asked him to compare one of MCTRF's external growth stock portfolio managers, Bill Fredericks, against Growth Unlimited (GU) and make a recommendation. Mary sees some impressive numbers in GU's performance over the last three years. In fact, John normally evaluates fund managers based on a three-year record. However, this time he is considering a different approach. Bill Fredericks was actually slightly ahead of GU last quarter. In addition, John and Bill have become close friends. Bill has helped John with several projects apart from growth stock investing and has arranged for John and his staff to attend some of Bill's educational seminars without cost to MCTRF. Analyze John's decision from a virtue ethics perspective. Which recommendation(s) pass the virtue ethics test?
25. *Plant automation.*¹⁰ George is a recent MBA who just joined a manufacturing firm's Cedar Valley plant as its only cost accountant. Cedar Valley is a town of 20,000 people, and the plant is one of several owned by the firm. George's boss Arthur tells him that management wants to automate this particular plant with robots as a pilot project, to help judge whether the other plants should be automated. Arthur admits that the community will be in an uproar due to the loss of jobs. However, the firm can save some of the jobs through retraining. Once George releases accounting information showing that the upgrade is necessary, the community will be less likely to resist. George points out that the report he sent to headquarters last year found that automation would not benefit the plant. Yet Arthur points out that the report was based on cost assumptions, and these can be adjusted as necessary to make the bottom line come out differently. After all, market prices fluctuate, and there is no solid proof that one cost estimate is better than another. How does virtue ethics bear on this case?
26. *Missing travel documentation.*¹¹ Tim, a CPA, works for an auditing firm and has been placed in charge of an annual audit for Dalton Enterprises, a medium-sized firm with \$20 million in assets. Mr. Dalton micromanages the family-owned firm except the finance area, which he leaves to his son Chauncy, recently appointed as VP of Finance. Chauncy's duties include the appointment of auditors. Past audit reports have never been circulated outside the firm. They have been quite detailed, including all changes in general ledger accounts, because Mr. Dalton uses the reports for administrative control purposes. Tim notices that travel expenses are \$20,000 higher this year, due to expenditures authorized by Chauncy. Most of these expenses are undocumented, but the firm's controller seems unconcerned. Tim finally raises the issue with Chauncy, who questions why auditors would be skeptical of his honesty. He says that it is typical of "bean counters" to focus on minor issues while ignoring possibilities for major efficiency improvements. He ends the interview by asking, "What are we paying you guys for anyhow?" How does virtue ethics relate to Tim's decision as to what to put in the report?
27. *The good credit reference.*¹² Diversified Consolidated Corporation (DCC) is a supplier for North Manufacturing. As a credit officer at DCC, Kathy is responsible for about \$1 million in credits to North. There are rumors that North is in deep trouble. The company has always paid on time and even lists BCC as a credit reference. Nonetheless, Kathy decides that a visit with North's treasurer, Scott, is in order. They have developed a good working relationship over the years, and after a few drinks at lunch, Scott levels with her. He confesses that although North's latest financial statements are technically correct, there has been a sudden reversal, and the company is talking to bankruptcy attorneys. Scott is giving first priority to paying suppliers like DCC, because supplier credit is their only hope for survival. In fact, Scott has just placed a major order with DCC's competitor Basic Products. If there is anything Kathy can do to convince Basic to extend credit, North may get over this hump and bring business back to DCC. Otherwise, North is probably headed for bankruptcy by the end of the quarter. Later that day, Kathy receives a phone call from her friend Mike at Basic Products. Suppliers often share credit information, and Mike asks about North. He has heard rumors, and he wants to make sure all is well before he commits to a major order. He is relieved when Kathy tells him that North continues to make its payments promptly. She asks him to hold the line a moment. Her mind races as she thinks about

whether to tell the rest of the story. How does virtue ethics interact with the other conditions for rational choice in this case?

28. Suppose that in Exercise 22, the partner thinks better of committing tax fraud. Instead, he tells Steve that the firm will cover the portion of the client's tax bill that results from Steve's mistake. However, it's best that the client know nothing of this. Steve is therefore asked to send the client a copy of the tax form he would have prepared to carry out the partner's first plan, rather than the form actually submitted to the IRS. The partner points out that his new plan complies with tax law and benefits the client, so it can't be unethical. Is he right?
29. What is the ethical choice in Exercise 20?

Notes

1. Based on the Arthur Andersen mini-case *Damage Expense* by Michael Forget and Raymond L. Hilgert. A number of the exercises in this book are based on a collection of ethics case studies assembled by Arthur Andersen & Co. S.C. during the period 1987–1994. They were one product of a \$5 million effort by Andersen to raise awareness of ethical issues in business. Ironically, Andersen surrendered its CPA licenses and effectively went out of business in 2002 when convicted of obstruction of justice for its role in the Enron scandal (the U.S. Supreme Court overturned the conviction in 2005). The case collection consists of five full-length case studies and 85 mini-cases.
2. For example, Isaac Levi, *Hard Choices: Decision Making under Unresolved Conflict*, Cambridge University Press, 1990.
3. This differs from classical utilitarianism, which requires me to choose the action that actually maximizes utility. The classical theory is consequentialist, while the theory presented here is a deontological reinterpretation of utilitarianism.
4. This is related to the concept of *bounded rationality* introduced by my former colleague Herbert Simon. For Simon, bounded rationality is a corrective for rational agent models in economics. It takes into account the fact that human beings have limited knowledge and ability to choose rational acts, even acts that are rational in the narrow, self-interested sense used by economists. Yet Simon acknowledged that we can be completely rational when acting without full knowledge, because we may have reason to believe that further investment in fact-finding could consume more effort than it is potentially worth (or to use a term from decision theory, the *net expected value of perfect information* is negative).
5. Based on the Arthur Andersen mini-case *The Accidental Bank Robbery* by D. Anthony Plath.
6. Based on the Arthur Andersen mini-case *Irrevocable Election* by Ed Scribner.
7. Based on the Arthur Andersen mini-case *Something Rotten in Hondo* by John Fraedrich.
8. One thinks of Søren Kierkegaard's analysis of Abraham's decision in the biblical book of Genesis to sacrifice his son at God's command. Kierkegaard calls it a "teleological suspension of the ethical" in his book *Fear and Trembling* (1843). In our terms, it would be a teleological suspension of the generalization principle.
9. Based on the Arthur Andersen mini-case *Metropolitan City Teachers' Retirement Fund Performance Appraisal* by James R. Haltiner and Paul B. Bursik.
10. Based on the Arthur Andersen mini-case *Plant Automation* by Sue Atkinson.
11. Based on the Arthur Andersen mini-case *What Happened to All Those Credit Slips?* by Robert R. Davis.
12. Based on the Arthur Andersen mini-case *The Good Credit Reference* by Scott B. Moore and Edward D. Curren.