

Reflecting on these stands, one can discover patterns in the way that most people think about such normative issues. Many people judge the ethics of executive compensation in terms of consequences, either beneficial, according to defenders, or harmful, according to critics. Deciding between these views would involve, at least in part, investigating the real-world consequences that result from such pay packages. Ethical analysis will sometimes require such empirical investigation: Is high executive compensation, in fact, highly correlated with performance? Do stock options, in fact, encourage short-term thinking or earnings manipulation? Determining the facts will often play an important role in ethical analysis, and this would be a helpful first step to take in the process of analysis. This case also raises ethical issues of principles and standards that do not involve empirical consequences. Ownership rights and fiduciary duties are two such factors that establish ethical constraints on consequentialist thinking. For example, many argue that board members have a fiduciary duty to stockholders that should trump their desire to benefit corporate executives. A helpful step in the process of identifying principles and duties is to ask who might be benefited and who might be harmed by alternative decisions. Once such stakeholders have been identified, one should then ask if there are any individuals or institutions that have a duty to provide the benefit or prevent the harm.

Finally, this case also raises questions about personal virtues and vices. At first glance, this is a descriptive activity: Describe someone who so desires money that he would manipulate an earnings report; describe someone for whom a salary of several hundred thousands of dollars each year is not enough. But within these descriptions are normative and evaluative components. A person described as greedy has a real character flaw; a person of integrity is to be praised and honored. One challenge to such descriptions, of course, is to answer the "so what?" question. So what if I am greedy? Why should I care if I lack integrity? These questions go to the heart of ethical motivation. Business ethics seeks not only to justify good and right behavior, it also seeks to motivate people to act accordingly. This is among the foremost ethical challenges facing contemporary business managers.

CHAPTER REVIEW QUESTIONS

1. Describe ethical relativism and at least three philosophical challenges to this position.
2. Distinguish between utilitarian, principle-based, and virtue-based approaches to ethics. What are the strengths and weaknesses of each?
3. How are utilitarian ethics relevant to business? Explain at least three major challenges to utilitarian ethics.
4. How does principle-based ethics establish a connection between individual rights and the nature of human beings?
5. Develop a list of virtues and vices. As a helpful way to begin, think about the pledge offered by Boy Scouts and Girls Scouts that begins: "A scout is trustworthy, loyal, helpful. . . ." Are these various virtues unified in any way?

2.2 ETHICAL RELATIVISM AND REASONING IN ETHICS

The day on which I originally wrote this chapter began with a morning class in business ethics. After class, a student remained to ask some questions about a paper assignment that I had returned during the previous class meeting. This student wanted to know how I had graded her paper, particularly why she had received an unexpectedly low grade. When I pointed out that much of the paper offered little more than her opinions, she asked a question that is familiar to many ethics teachers. "How can you say that my opinions are wrong? Isn't everyone entitled to their own opinions?" I answered that while people may be entitled to hold any opinion they wish, not all opinions are equal. Some are right, some are wrong, some are reasonable and some are unreasonable, some are thoughtful and others are less thoughtful. "But this is ethics," she responded. "Who's to say what's right or wrong?"

I suggested that anyone who had *reasons* could say what was right or wrong and asked if she herself didn't have some reasons to support her opinions. Why did she believe what she had written? She responded that she didn't know, but that it was "just the way I feel."

I suspect that this skeptical reaction is familiar to many students. Ethics is not like math, science, or accounting. One cannot look up the right answer or calculate the answer with mathematical precision. One cannot prove the truth of an ethical judgment in the way that one can offer a proof in geometry. One cannot run an experiment that supports, or refutes, an ethical opinion. Unlike these other disciplines, ethics appears to rest on mere opinion. People differ about ethical judgments, and there seems no rational way to decide between competing conclusions. Ethical issues seem based in personal feelings and emotions. It is very likely that the example of executives earning hundreds of millions of dollars a year causes strong emotional reactions for many people. But is that all there is to this case? Is it just a matter of envy or jealousy? Is the criticism simply a claim that they are greedy? Or, are there *reasons* for thinking that there is something wrong here? Is there any way to prove your conclusion?

There is an important perspective within the philosophical study of ethics, called *ethical relativism*, which holds that ethical values and judgments are ultimately dependent upon, or relative to, one's culture, society, or personal feelings. In this sense, ethics truly is simply a matter of opinion, be it the opinion of one's self, culture, society, or religion. Ethical relativism presents a serious challenge to any consideration of ethics. Relativism denies that we can make rational or objective ethical judgments. There is no right or wrong, moral or immoral, except in terms of a particular culture or society.

The student who remained after class was implicitly assuming a version of ethical relativism. In her view, ethical judgments were a matter of opinion and if two people differed in their opinions, there was no legitimate way to decide between them. Each person is entitled to their own opinion, and no one opinion is more legitimate or more correct than another.

Relativism represents a serious challenge to ethics, including business ethics, because if it is correct there is no reason to continue our study of ethics.

If all opinions are equally valid, then it makes little sense for us to attempt to evaluate ethical judgments in business. If relativism is correct, then at best business ethics can help explicate the cultural or social values that underlie our ethical judgments, but it can do little to evaluate them as right or wrong. Philosophical ethics, from the relativist perspective, becomes little more than a process of values clarification in which we can clarify and elucidate our values but not justify them.

Relativism is especially important as we think about ethical issues involving international business. Consider the issues raised by child labor. Some Western businesses have been criticized for using suppliers who rely on child laborers working under harsh conditions for long hours and very low wages to produce expensive consumer goods like sneakers and designer clothing. A common response to such criticism points out that such working conditions are accepted in the host country and, therefore, Western critics have no justification for imposing their own cultural norms on others. This, in a nutshell, is ethical relativism.

Let us use another example from business ethics, a case of sexual harassment, and consider how my relativist student might scrutinize it. One form of sexual harassment occurs when submission to sexual favors is made a condition of employment. (This is called *quid pro quo* harassment.) Imagine a male manager telling a female job applicant that she would be hired only if she submitted to his sexual advances. Now imagine that our relativist concludes that the criticism of harassment is simply a matter of opinion, that all opinions are equally valid, and that while the women may *feel* that harassment is wrong, the manager may *feel* that it is right. (He might answer criticism as did my student, "it's just the way I feel.") From the relativist perspective, each opinion or feeling is equally valid. Is there any way to defend the claim that such harassment is unethical?

One might argue, among other things, that sexual harassment would subject a woman to unfair workplace discrimination. The inequality of power in this situation places the woman in the unacceptable position of having to choose between her livelihood and her own sexual integrity. Such a choice is fundamentally coercive and threatening. One might point out that the male manager would unlikely accept as a general rule the principle that employers are justified in using threats to coerce employees into submitting to such degrading acts. In developing such arguments, we seem to have moved the discussion from mere opinion to a more reasoned conclusion.

Of course, the relativist could argue that such values as equality, fairness, integrity, self-respect, and freedom from coercion and threats are all themselves a matter of personal or social opinion. From the relativist perspective, all that we have shown is that harassment is wrong as long as you assume that people deserve a workplace that is free from discrimination and threats. But who is to say that people do deserve such things? While we may have advanced the debate somewhat, we still haven't proven to the relativist that harassment is wrong.

Let us consider how the debate has been advanced. If, like my student, we start with mere opinions and feelings, then this discussion has moved beyond

mere opinion by appealing to certain values and principles that justify and legitimize that opinion. This is no longer mere opinion, but opinion based on principle. In developing this argument we would point to certain facts, such as the disproportionate power relationship that exists between job applicant and employer. We would point out the crucial importance that jobs play in our lives and the harms that can occur from the loss of a job. We could explain the psychological good of self-respect, offer a conceptual analysis of integrity and its value to the self, and discuss the importance of personal autonomy. We could take a social perspective and consider the present status of women in the workplace, and the social harms that can result from discrimination. And very importantly, we would employ the careful and rigorous rules of logic throughout our reasoning. Conclusions reached after this process surely are more reasonable and justified than mere opinion.

In the face of such reasoning, the relativist could continue to insist on proof, and this demand could go on indefinitely. (Although, as I would point out to my student, a paper that argues against harassment by reasoning along the lines suggested above would be more reasonable, and therefore receive a higher grade, than one that simply asserts the opinion that harassment is wrong because "that's just the way I feel.") But note that at this point that the relativist would have to reject not only the original conclusion (sexual harassment is wrong) but also a wide variety of other beliefs and values (everyone should be treated with equal respect, people should be free from coercion and threats, self-respect is good, loss of dignity is harmful, and so forth). The costs of relativism—what you would need to give up to maintain it—just got much higher. If the relativist is determined enough, and if her standards of proof are high enough, then perhaps we could never satisfy the demand for proof.

We'll set more modest goals for this text. Throughout this book, I will assume that we can reason about ethical matters and that it is possible to rationally defend some views against others. I will assume that a conclusion defended by appeal to such values as equality, fairness, freedom from coercion, integrity, freedom from harm, and honesty (among others) is a conclusion that is more reasonable than one that is simply asserted as a matter of personal feelings or opinion. A conclusion that is reached through careful logical analysis and reasoning is rationally better than one that is simply asserted. An argument that goes on to elucidate such values as equality, fairness, and freedom from coercion is more rational still.

We may discover that the most interesting and challenging ethical controversies involve a clash between two or more such values. I will also assume that it is exactly at such points that more, rather than less, rigorous and careful reasoning is required. For example, some might argue that as long as the woman was not physically prevented from walking away, her freedom was not violated by the threat of job loss. Others might argue that freedom is violated when such central human needs as a job are threatened as the means for getting someone to conform to the desires of a more powerful person. Disputes about the meaning and scope of such fundamental values provide a greater justification for the need of ethics.

Perhaps, then, we can learn from ethical relativism, and take it as a challenge to our own complacency and laziness. Whenever we are ready to give up and simply assume that our own opinions are adequate, let us call to mind the relativist question as a challenge: "Who is to say what's right?" It will be a challenge worth answering.

Providing answers to the relativist has long occupied philosophical ethics. The ethical theories that we examine in the following sections can be thought of as philosophical attempts to provide more fundamental answers to the relativist. But before we turn to these theories, and before we leave this consideration of ethical relativism, let me call your attention to several confusions that often lead students into the relativist trap. In my own teaching experience many students who do not avoid these traps end up reaching relativist conclusions by default.

The first trap has been mentioned already. We should be careful not to hold ethics to too high a standard of proof. If we start with the assumption that an ethical judgment must be proven as absolutely certain and beyond doubt, then ethics assuredly will fail to meet this standard. Mathematics and the more theoretical side of physics, engineering, and chemistry may meet this standard, but very few other intellectual fields would pass such a test. Reasoning in all of the humanities, the social sciences (including economics), the biological sciences, medicine, meteorology, and the applied sides of physics, chemistry, and engineering would fail to meet this standard in most of their conclusions. The business-related disciplines of management, marketing, finance, and accounting never establish their conclusions as certain beyond doubt. So, before rejecting ethics as little more than mere opinion, we should be careful that we are not using a standard that would commit us to similar conclusions about most other areas of human knowledge.

The second trap involves confusing the fact that there is wide disagreement about values, with the conclusion that no agreement is possible. The first view, often called *cultural relativism*, offers a factual description of different cultures and societies. People do not agree about ethical matters. As discussed in chapter 1, the *ethos* of various cultures differ widely. People hold a wide variety of ethical opinions. Some cultures may believe, in fact, that children are little more than slave labor. However, in itself, the fact of disagreement provides no reason for concluding that all of these diverse opinions are equally valid. To understand this point, consider the wide disagreement about scientific matters. We could find people, indeed perhaps entire cultures, that believe the Earth is flat, that the Earth is only a few thousand years old, that evolution has never occurred, that aliens visit regularly, or that people can foresee the future by charting the course of the planets and stars. Of course, believing that the world is flat does not make it flat and believing that aliens exist does not mean that they do. So, too, with ethics. The fact that people hold different opinions does not, in itself, mean that each of these opinions is equally valid.

We should also be careful not to assume too quickly that there is a wide disagreement about fundamental ethical values. Certainly there is a wide variety of cultural beliefs, customs, values, and practices. But there is also wide agreement

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about many values as well. Child abuse, torture, genocide, and slavery are just some practices that are universally condemned on ethical grounds. No doubt, we can find cases where individuals and even societies engage in such atrocities, but we would find very few who would seriously defend these practices as justified or merely a matter of personal opinion. While it may appear that some cultures legitimize child labor, it is more likely the case that such circumstances are seen as an unfortunate but necessary alternative to starvation. Accepting a deplorable situation as the least harmful of the alternatives is not the same as accepting it as ethically valid.

A third trap involves confusing values such as respect, tolerance, and impartiality with relativism. Respect for other people is a fundamental ethical value. Part of what it means to respect someone is to listen to his or her opinions and to show tolerance for opinions that differ from our own. But tolerating diverse opinions and values is not the same as ethical relativism. Let us turn the relativist challenge back on to the value of tolerance. Is tolerance (and respect and impartiality) merely a matter of opinion? If it is, then intolerant people have no reason to change their views. Condemning intolerance is simply your opinion. If, on the other hand, tolerance is not merely a matter of opinion, if in other words, it is put forward as a legitimate social value, then we have at least one value—tolerance—that has escaped the relativist critique.

Let us now turn to two of the most prominent and influential approaches to ethics in contemporary society: utilitarianism and principle-based ethics.

2.3 MODERN ETHICAL THEORY: UTILITARIAN ETHICS

Utilitarianism is the first ethical framework that we need to consider. Utilitarianism has had a significant impact on the modern world and has been especially influential in shaping politics, economics, and public policy. It therefore has had, and continues to have, an enormous influence on business. It will be helpful to start our consideration by locating utilitarianism within its historical context. Roots of utilitarian thinking can be found in works by Thomas Hobbes (1588–1679), David Hume (1711–1776), and Adam Smith (1723–1790), but the classic formulations are found in the works of Jeremy Bentham (1748–1832) and John Stuart Mill (1806–1873). Each of these social philosophers was writing against a background of the great democratic revolutions of the seventeenth and eighteenth centuries.

Utilitarianism tells us that we can determine the ethical significance of any action by looking to the consequences of that act. Utilitarianism is typically identified with the policy of “maximizing the overall good” or, in a slightly different version, of producing “the greatest good for the greatest number.” Acts that accomplish this aim are good; those that do not are bad.

This emphasis on the overall good, and upon producing the greatest good for the greatest number, directly opposed authoritarian policies that aimed to benefit the political elite. Thus, utilitarianism provided strong support for democratic institutions and policies. Government and all social institutions exist for the

well-being of all, not to further the interests of the monarch, the nobility, or some small minority. Likewise, the economy exists to provide this highest standard of living for the greatest number of people, not to create wealth for a privileged few.

Thus, utilitarianism is a *consequentialist* ethics. Good and bad acts are determined by their consequences. (How else might we judge acts? Well, sometimes we determine that we should or should not do something as a matter of principle, regardless of consequences. We'll look at this approach in more detail in the next section.) In this way, utilitarians tend to be pragmatic thinkers. No act is ever right or wrong in all cases in every situation. It will all depend on the consequences. For example, lying is neither right nor wrong in itself. There might be situations in which lying will produce greater overall good than telling the truth. In such a situation, it would be ethically right to tell a lie.

Consider as an example the case from the start of this chapter. Should the U.S. government pass a law that limits the amount of money corporate CEOs can be paid (or, at least, that can be credited as tax-deductible)? A utilitarian approach to this question will consider the likely consequences of either alternative. Limiting the amount of executive salary that can be deducted from taxes should provide a disincentive to corporations to pay such large salaries. In a world of finite resources, this should work to increase the average pay for other workers or lower costs to consumers. On the other hand, lower salaries might make it more difficult to attract highly qualified executives to U.S. firms and could result in less competitive U.S. companies. This would result in harm to everyone, including lower-paid workers and consumers. Either way, the ethical judgment made about the decision is a function of what happens after the fact.

But whenever we make a decision on basis of the consequences of what we do, we are implicitly assuming some theory of good and bad. How else would we be able to distinguish the consequences we should seek from those we should avoid? If we judge our actions in terms of consequences, then we must have some independent standard for deciding between good and bad consequences. In general terms, utilitarian thinkers hold that we should maximize the overall good, but among utilitarians there are different interpretations of what this "good" involves.

In general, the utilitarian position is that happiness is the ultimate good. The only thing that is and can be valued for its own sake is happiness. (Does it sound absurd to you to claim that unhappiness is good and happiness is bad?) The goal of ethics, both individually and as a matter of public policy, should be to maximize the overall happiness. But, what exactly is happiness?

Jeremy Bentham argued that only pleasure, or at least the absence of pain, was intrinsically valuable. Happiness, according to Bentham, must be understood in terms of pleasure and the absence of pain; unhappiness is understood as pain, or the deprivation of pleasure. On Bentham's view, pleasure and pain are the two fundamental motivational factors of human nature. In his words,

Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do. . . . They govern us in all we do, in all we say, in all we think.³

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Consider, then, Bentham's utilitarian reasoning. Only pleasure and the absence of pain are valued for its own sake. Only pleasure and the absence of pain, therefore, are intrinsically, objectively, and indisputably good. If pleasure and the absence of pain are good, more pleasure (or less pain) is better and maximum pleasure (or minimum pain) is best. Therefore, maximizing pleasure (the utilitarian principle) is the fundamental, objective, and indisputable ethical principle.

While the imperative to maximize pleasure sounds egoistic, utilitarianism differs from *egoism* in important ways. Egoism focuses on the happiness of individuals. Utilitarian acts are judged by their consequences for the general and overall good. Consistent with their commitment to democratic equality, however, the general good includes the well-being of each individual affected by the action.

While agreeing with the general framework of Bentham's utilitarianism, John Stuart Mill defended a different understanding of happiness. Mill believed that there is a qualitative dimension to happiness that is missed by Bentham's focus on pleasure. Human happiness is not mere hedonism. According to Mill, humans are capable of enjoying a variety of experiences that produce happiness. Besides the pleasures of sensation that Bentham mentions, humans also experience social and intellectual pleasures that are qualitatively different from, and superior to, mere feelings. In a famous passage, Mill claims that "it is better to be a human being dissatisfied than a pig satisfied; better to be a Socrates dissatisfied than a fool satisfied."⁴

But the claim that there is a form of happiness that is qualitatively better than sensations of pleasure is controversial. How do we know, or how can we prove, that it is better to be Socrates dissatisfied than a fool satisfied? Mill's answer has significant ethical and social implications. To decide which pleasures and what type of happiness is better, according to Mill, we should consult with someone with the experience of both. Such experienced and competent judges are the best test for determining the highest happiness.

Of two pleasures, if there be one to which all or almost all who have experience of both give a decided preference, . . . that is the more desirable pleasure.⁵

And if disagreement continues beyond this, Mill next suggests that

From the verdict of the only competent judges, I apprehend there can be no appeal. On a question which is the best worth having of two pleasures . . . the judgment of those who are qualified by knowledge of both, of if they differ, that of the majority among them, must be admitted as final.⁶

Thus, Mill acknowledges that not all opinions are equal. Some people are more competent and more qualified than others in judging what is good. Mill's utilitarianism does not support an uncritical majority rule in which every opinion of what is good is treated as equally valid. However, we shouldn't abandon democracy because of this. The way to develop competent judges is through experience and education. People need to be educated and experienced in a variety of pleasures before they are competent to judge. Once they are experienced, then majority-rule democracy is the best way to make decisions.

Thus, in John Stuart Mill's writings we find one of the classic defenses of liberal democracy and liberal education. The most fundamental ethical principle commits us to arranging society in such a way that we maximize the happiness for the greatest number of people. The best means for attaining this goal is an educated citizenry making decisions through a majority-rule democracy. The best method for securing an educated citizenry is to allow individuals the freedom of choice to pursue their own ends. Even when those choices are unwise, individuals are gaining the experience needed to distinguish between good and bad, higher and lower, pleasures.

These views have significant implications for business and economics. In classical free market economics, consumer demand is sovereign. Economic transactions occur when individuals seek their own happiness, understood as getting what they demand. If individuals make mistakes and buy products that fail to bring them satisfaction, they learn from their mistakes, no longer buy the product, and according to supply and demand, market forces eventually eliminate unsatisfactory products.

Perhaps utilitarianism's greatest contribution to social and political thought has come through its influence in economics. With roots in the works of Adam Smith as well as those of Bentham and Mill, the ethics of twentieth-century neo-classical economics—essentially what we think of as free market capitalism—is decidedly utilitarian. It is in this way that utilitarianism has had an overwhelming impact on business and business ethics.

Under free market economies, economic activity aims to satisfy consumer demand. The law of supply and demand tells us that economies should, and healthy economies do, produce (supply) those goods and services that consumers want (demand). Since scarcity and competition prevent everyone from getting all that they want, the goal of free market economics is to optimally satisfy wants. Free markets accomplish this goal by allowing individuals to decide for themselves what they most want and then bargain for these goods in a free and competitive marketplace. This process of allowing individuals to set their own preferences and bid for them in the marketplace will, over time and under the right conditions, guarantee the optimal satisfaction of wants.

This brief description suggests how free market economics fits the utilitarian framework. The end or goal of economic activity, what economists often refer to as utility or welfare, is the maximum satisfaction of consumer demand. We do the most good for the greatest number when we get as many people as possible as much of what they want as possible. The "good" is defined in terms of satisfying one's wants. But, since scarcity and competition prevent us from getting all that we want, individuals are left to rank-order their wants or, in other terms, to establish their own preferences. Thus, free market economics can be thought of as a version of preference utilitarianism, where the utilitarian goal is the maximum satisfaction of preferences.

Given this goal, free market economics advises us that the most efficient means to attain that goal is to structure our economy according to the principles of free market capitalism. We should allow individuals the freedom to bargain for themselves in an open, free, and competitive marketplace. Self-interested

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individuals (and mainstream economics assumes that this is at least a strong tendency among human motivations) will always be seeking ways to improve their own position. Agreements (contracts) will occur only in those situations where both parties believe that a transaction will improve their own position. In such a situation, the competition among rational and self-interested individuals will continuously work to promote the greatest overall good. Whenever a situation occurs in which one or more individuals can attain an improvement in their own happiness without a net loss in others' happiness, market forces will guarantee that this occurs. Thus, the market is seen as the most efficient means to the utilitarian end of maximizing happiness.

2.4 CHALLENGES TO UTILITARIANISM

We will examine some debates surrounding the free market version of utilitarianism in chapter 3. For now, let us consider some general challenges to the ethics of utilitarianism. We can classify these challenges into two groups—problems raised from within a utilitarian perspective that involve finding a defensible version of utilitarianism and problems raised from outside that challenge the plausibility of the entire utilitarian project.

We will mention two challenges that are debated from within utilitarian perspectives. First, all utilitarians must find a defensible way to measure happiness. Phrases like “maximize the overall good” and the “greatest good for the greatest number” require some form of measurement and comparison (how else would you know that this situation rather than another has maximized the good?). Bentham went to great lengths to develop a “hedonistic calculus” to help quantify pleasures. Mill left it to the judgment of a majority of well-informed, competent judges. Economists substitute such measures as the gross national product for determining overall happiness. Bentham, Mill, and neoclassical economics all sought a scientific, measurable ethics. But there simply is no consensus among utilitarians on how to measure and determine the overall good.

This problem is only compounded by the fact that utilitarians are committed to considering all the consequences to all affected parties. Many business ethics issues highlight how difficult this could be. Consider the consequences of using nonrenewable energy sources and burning fossil fuels for energy. It is hard to see how a utilitarian could ever hope to calculate the consequences of a choice between investing in nonrenewable sources and continuing the present reliance on coal and oil. Yet this is exactly what is required by the utilitarian principle. (Attempts to shift focus, as economists often do, on to the “expected” utility of an act is to abandon utilitarianism. At that point we have adopted an ethics not of consequences but of intentions and that is no longer utilitarianism. We'll see this view developed in the following section.)

The second problem with the utilitarian perspective deals with differing versions of the good and the implications for human freedom. Historically, utilitarians are social and political liberals. That is, they all placed a very high value

on individual freedom of choice. But there is a tension between objective accounts of the good and individual freedom. Simply put, free individuals do not always choose to do what is good for them. The more utilitarians emphasize freedom, the more likely they hold more relativistic accounts of the good. On this view, good is simply a matter of opinion, or individual desires, preferences, and wants. However, this seems to abandon the entire project of ethics since, after all, people often desire what is trivial, immoral, and bad. On the other hand, the more utilitarians are willing to specify a content to the good life, the more the need to abandon the commitment to individual freedom. If we know what is truly good, then individuals ought to act in certain ways (to maximize the good) even if they don't want to. Finding a balance between individual freedom and the overall good is a challenge that confronts most versions of utilitarianism.

The final challenge is not raised from within the utilitarian perspective but rather goes directly to the core of utilitarianism. The essence of utilitarianism is its consequentialism. Good and bad acts are judged by their consequences. In short, the end justifies the means. But this seems to deny one of the earliest and most fundamental ethical principles that many of us have learned: The ends don't justify the means.

This challenge can be explained in terms of rules or principles. When we say that the ends don't justify the means what we are often saying is that there are certain rules or principles we should follow no matter what the consequences. Put another way, we have certain duties or obligations that we ought to obey even when doing so does not produce a net increase in overall happiness. Examples of such duties are those required by such principles as justice, loyalty, and respect, as well as the duties that flow from our roles as parent, spouse, friend, and citizen. We will examine that ethical tradition in more detail in the next section.

Several examples can be used to explain this criticism. Since utilitarianism focuses on the overall consequences, utilitarianism seems willing to sacrifice the good of individuals for the greater overall good. So, for example, it might turn out that the overall happiness would be increased if we forced a small minority of the population into slave labor. Utilitarians could object to slavery, not as a matter of principle, but only if and to the degree that slavery detracts from the overall good. If it turns out that slavery increases the net overall happiness, utilitarianism would have to support slavery. In the judgment of many people, such a decision would violate the principles of justice, equality, and respect. As we will see developed in the following section, principle-based ethics would appeal to the concept of ethical *rights* in criticizing utilitarianism. From that perspective, individuals possess certain basic rights that should not be violated even if doing so would increase the overall social happiness. Thus, critics of laws restricting executive compensation argue that businesses should be free to decide for themselves what to pay their executives. The income paid to executives belongs to the corporation, not to the government, and therefore such a law would violate their property rights. Rights function to protect certain central interests from being sacrificed for the greater overall happiness. Utilitarians can defend rights only to the degree that rights contribute to the overall good.

Another example that can be raised against utilitarianism looks to specific relationships and commitments that we all make. For example, as a parent we love our children and have certain duties to them. Imagine a situation in which you have to choose between saving the life of your child and saving the life of a talented dedicated brain surgeon. Utilitarians are committed to determining the ethical decision by calculating the overall consequences of each choice and doing whatever will maximize the overall good. The example can be arranged in such a way that saving the brain surgeon clearly contributes to the overall good. But what ethical judgment should we make about the parent who even begins to make such calculations?

Utilitarians would seem to be committed to parental love and duty only to the degree that such love and duty contributes to the overall good. Parents should love their children because this contributes to the overall good of society. (And if it doesn't?) But surely this misrepresents (and insults) the nature of parental love. I do not love my children because of the consequences that this might have for society. Principle-based ethicists would argue that there are certain commitments that we make, certain duties that we have, which should not be violated even if doing so would increase the net overall happiness. Violating such commitments and duties would require individuals to sacrifice their own integrity for the common good. Thus, critics of excessive executive compensation might claim that gross inequality in pay is unfair and unjust in principle. We will consider similar themes of professional commitments and duties when a later chapter examines the role of professional responsibilities within business institutions.

2.5 UTILITARIANISM AND BUSINESS POLICY

Before moving on to principle-based ethics, it will be helpful to connect utilitarian ethics to some general concerns of business ethics. At its most basic, utilitarianism is a social philosophy, offering criteria by which the basic structure of social institutions, such as business and the economy, ought to be determined. Social institutions should be structured in whatever way will maximize the overall good.

As we have seen, critics of utilitarianism deny that this is an adequate or complete social ethics. But even among utilitarians there is disagreement about the best means for attaining the utilitarian goal. It will be useful to introduce two versions of utilitarian thinking at this point. In general, utilitarians are committed to whatever means attain the ends of maximum happiness. On this view, policy questions are really pragmatic questions that depend on the specific circumstances of time and place. Nevertheless, some general policy patterns can be identified.

One version of utilitarianism public policy holds that there are experts who can predict the outcome of various policies and carry out policies that will attain our ends. These experts, usually trained in social sciences such as economics, are familiar with the specifics of how society works and can therefore determine which policy will maximize the overall good.

This approach to public policy underlies one theory of the entire administrative and bureaucratic side of government. On this view, the legislative body (from Congress to local city councils) establishes the public goals, and the administrative side (presidents, governors, mayors) executes (administers) policies to fulfill these goals. The people working within the administration, the classic government bureaucrats, should know how the social and political system works and use this knowledge to carry out the mandate of the legislature. The government is filled with such people, typically trained in such fields as economics, law, social science, public policy, and political science. This approach, for example, would justify widespread government regulation of business on the grounds that such regulation will ensure that business activities do contribute to the overall good.

Consider how the Federal Reserve Board sets interest rates. There is an established goal, a public policy "good," that the Federal Reserve takes to be the greatest good for the country. (This goal is something like the highest sustainable rate of economic growth compatible with minimal inflation.) The Fed examines the relevant economic data and makes a judgment about the present and future state of the economy. If economic activity seems to be slowing down, the Fed might decide to lower interest rates as a means for stimulating economic growth. If the economy seems to be growing too fast and the inflation rate is increasing, they might choose to raise interest rates. Lowering or raising interest rates in itself is neither good nor bad; the rightness of the act depends on the consequences. The role of the public servant is to use his or her expertise to judge the likely consequences and make the decision that is most likely to produce the best result.

A second influential version of utilitarian policy invokes the tradition of Adam Smith and claims that competitive markets are the best means for attaining utilitarian goals. This version would promote policies that deregulate private industry, protect property rights, allow for free exchanges, and encourage competition. In such situations the self-interest of rational individuals will result, as if led by "an invisible hand" in Adam Smith's terms, to the maximum satisfaction of individual happiness.

The dispute between these two versions of utilitarian policy, what we might call the "expert" and the "market" versions, characterizes many disputes in business ethics. One clear example concerns regulation of unsafe workplaces. One side argues that questions of safety and risk should be determined by experts who then establish standards that business is required to meet. Government regulators (in this case, the Occupational Health and Safety Administration, or OSHA) are then charged with enforcing safety standards in the workplace. The other side argues that the best judges of acceptable risk and safety are workers themselves. A free and competitive labor market will ensure that people will get the level of safety that they want. Individuals calculate for themselves what risks they wish to take and what trade-offs they are willing to make in order to attain safety. Workers willing to take risks likely will be paid more than workers who demand safe work environments. Thus, a market-based solution will prove best at optimally satisfying these various and competing interests.

There is no question that utilitarian reasoning dominates among policy makers and policy administrators. Policy experts at all levels are focused on results and on getting things done. This makes the utilitarian emphasis on consequences particularly attractive to fields such as economics, business, and government. It seems obvious that policy questions should be judged by results and consequences. The utilitarian emphasis on measuring, comparing, and quantifying also reinforces the view that policy makers should be neutral administrators. The standard view is that policy goals should be left to the democratic decisions of the people. The people decide what they want and what makes them happy; the job of social policy is simply to help them attain those goals in as efficient a manner as possible. *Efficiency* is simply another word for maximizing happiness.

Finally, like utilitarians, policy experts are concerned with the well-being of the whole community. Their focus is on the collective or aggregate good. By their very nature, policy makers take a broad social perspective. This, too, is consistent with the utilitarian emphasis on the overall good.

Despite these close connections between utilitarianism and public policy, serious ethical challenges remain. We turn now to a major alternative to utilitarian ethics: principle-based ethics.

2.6 PRINCIPLE-BASED ETHICS

Principle-based, or rights-based, ethics emphasizes the fact that sometimes the correct path is determined not by its consequences but by certain principles or duties. More familiar synonyms for *duty* include obligations, commitments, and responsibilities. This principle-based approach faults utilitarianism for thinking that our acts should always be judged by their consequences to the overall good. This ethical tradition denies the utilitarian belief that the ends do justify the means. It holds that there are some things that we should, or should not, do regardless of the consequences.

To understand why the ends don't justify the means we need to emphasize that utilitarian ends are focused on the collective or aggregate good. Utilitarianism is concerned with the well-being of the whole. (This is one of the things that makes utilitarianism attractive to public policy makers.) But many of us have a deep commitment to the dignity of individuals. We believe that individuals should not be used as a mere means to the greater overall good. A prominent way of explaining this is to say that individuals have rights that should not be sacrificed simply to produce a net increase in the collective good.

Consider the debate mentioned previously concerning child labor in the developing world. Some policy makers in impoverished countries believe that the best means for raising the standard of living within their country is to increase exports. This brings in hard currency with which the country can pay for food, medicine, and education (and repay debts!). Increasing exports will raise the standard of living for all citizens and thereby meet the utilitarian goal of improving the collective good. However, to increase exports a

country must be capable of selling their goods at costs below those of competing countries. Since labor is a major production cost, keeping labor costs low helps the country as a whole. Unfortunately, one means for maintaining low labor costs is to employ young children. (Cases of child labor in the manufacture of sneakers and clothing are only the most well-publicized instances of an all too common phenomenon.)

Is it ethical to use young children in such circumstances? Defenders of this practice argue, typically on good utilitarian grounds, that the children are better off with the jobs than without them, that they contribute to their own family's income, and that they contribute to the overall welfare of their society. Critics claim, on principle-based grounds, that it is unethical to treat young children this way even if there are beneficial results. In this view, child labor is ethically equivalent to child abuse and slavery. It is something wrong on principle.

Within one tradition, our ethical duty is explained in terms of a principle that the German philosopher Immanuel Kant called the categorical imperative. (An imperative is a command or duty; *categorical* means that it is without exception.) Our primary duty is, according to Kant, to act only in those ways in which the maxim of our acts could be made a universal law. This is a very abstract way of saying something that is fairly intuitive. The "maxim" of our acts can be thought of as the intention behind our acts. The maxim answers the question: "What am I doing?"

Kant tells us that we should act only according to those maxims that could be universally accepted and acted on. (Consider how Kant might respond to the egoist view that all human behavior is intended for one's own self-interest.) For example, Kant believed that truth telling could, but lying could not, be made a universal law. If everyone lied whenever it suited them, rational communication would be impossible. Thus, lying is unethical. This condition of universality, not unlike the Golden Rule, prohibits us from giving our own personal point of view privileged status over the points of view of others. It is a strong requirement of impartiality and equality for ethics.

Kant also provided two other versions of this categorical imperative that are less abstract. He claimed that ethics requires us to treat all people as ends and never only as means. In yet another formulation, we are required to treat people as subjects, not as objects. These formulations restate the commitment to treat people as capable of thinking and choosing for themselves. Humans are subjects (they perform the act rather than being acted upon, to use the familiar subject/object categories from grammar). They have their own ends and purposes and therefore should not be treated simply as a means to the ends of others. In chapter 3, we will examine a view on corporate social responsibility that concludes, on Kantian grounds, that business managers have direct ethical responsibilities to all parties (stakeholders) who are affected by business activities.

Thus, on this Kantian theory our fundamental ethical duty is to treat people with respect, to treat them as equally capable of living an autonomous life. But since each person has this same fundamental duty toward others, each of us can be said to have the right to be treated with respect, the right to be

treated as an end and never as a means only. I have the right to pursue my own autonomously chosen ends as long as I do not in turn treat other people as means to my ends.

This points to a common way of understanding rights and duties. Philosophers will sometimes claim that rights and duties are correlative. This is to say that my rights establish your duties and my duties correspond to the rights of others. The principle-based tradition focuses on duties, which can be thought of as establishing the ethical limits of my behavior. From my perspective, duties are what I owe to others. Other people have certain claims upon my behavior; they have, in other words, certain rights against me.

Thus, to return to the earlier example, the Kantian would object to child labor because such practices violate our duty to treat children with respect. We violate the rights of children when we treat them as mere means to the ends of production and economic growth. We are treating them merely as means because, as children, they are incapable of rationally and freely choosing their own ends.

From this beginning, the principle-based, or rights-based, approach to ethics gets more complex. A complete theory must specify what rights we have and how they are justified, the range and scope of rights, and some process for prioritizing rights and resolving conflicts between different rights. As preparation for evaluating many of the debates to follow, we will pursue these questions briefly.

One way to understand rights is to think of them as protecting interests. We often make a distinction between a person's wants and interests. Wants (or desires) are psychological states of an individual. They are what, as a matter of fact, people will pursue. Wants are subjectively known, in the sense that individuals enjoy a privileged status for knowing what they want. (Imagine disagreeing with a person's claim that they want something.) Interests work for a person's benefit and are objectively connected to what is good for that person. People don't always want what it is in their interest to have.

For example, if given the choice many children would want to eat sugar-coated breakfast cereal each morning. Their parents deny them this on the grounds that it is not in their interests to eat such food. In this case, wants and interests conflict. Likewise, many college students want to skip class, but it is not in their interest to do so. On the other hand, wants and interests can coincide. You want a good education and good health, both of which are in your interests to have.

As we have seen, some versions of utilitarianism take happiness, understood as the satisfaction of wants, as the final goal of ethics. This version would either deny the distinction between wants and interests (interests being simply strong wants) or argue that the best way to decide what is in someone's interest is to let them decide for themselves (i.e., let them pursue their own wants). Either way, utilitarians believe that all wants/interests equally deserve to be satisfied to the degree that they equally produce happiness. If your desire for protection against an unsafe workplace is equal to my desire for high wages, each equally deserves satisfaction. Given this equality, the utilitarian

based. What human characteristic justifies the assumption that humans possess a special dignity? Why would it be wrong to treat humans as mere means or objects, rather than as ends or subjects?

The most common answer offered through the Western ethical tradition is that the human capacity to make rational choices is the distinctive human characteristic. Humans do not act only out of instinct and conditioning, they make free choices about how they live their lives, about their own ends. In this sense, humans are said to have autonomy. Humans are subjects in the sense that they originate action, they choose, they act for their own ends. To treat someone as a means or as an object is to deny to them this distinctive and essential human characteristic; it would be to deny to them their very humanity.

From this we can see how two related rights have emerged as fundamental within philosophical ethics. If autonomy, or self-rule, is a fundamental characteristic of human nature, then the freedom to make our own choices deserves special protection as a basic right. But since all humans possess this fundamental characteristic, equal treatment (or equal consideration) is also a fundamental right.

In summary, we can say that rights offer protection of certain central human interests, prohibiting the sacrifice of these interests merely to provide a net increase in the overall happiness. But interests, as opposed to desires, are connected to human well-being in an objective manner. Human nature, characterized as the capacity for free and autonomous choice, provides the grounds for distinguishing central interests from mere wants.

2.7 VIRTUE ETHICS

For the most part, utilitarian and principled approaches to ethics focus on rules and principles that we might follow in deciding what we, both as individuals and as citizens, should do. Chapter 1 pointed out, however, that ethics also involves questions about the type of person one should become. Virtue ethics is a tradition within philosophical ethics that seeks a full and detailed description of those character traits, or virtues, that would constitute a good and full human life. Before concluding this chapter, it will be worthwhile to consider some of the virtues, and corresponding vices, that might be relevant to business ethics.

To understand how virtue ethics differs from utilitarian and principled approaches, consider the problem of egoism. As mentioned above, egoism is a view that holds that people act only out of self-interest. Many economists, for example, assume that all individuals always act out of self-interest; indeed, many assume that rationality itself should be defined in terms of acting out of self-interest. The biggest challenges posed by egoism and, according to some, the biggest challenge to ethics, is the apparent gap between self-interest and altruism, or between motivation that is "self-regarding" and motivation that is "other-regarding." Ethics requires us, at least at times, to act for the well-being of others. Yet some people would claim that this is not possible; humans are only from self-interested motives.

But as philosophers and psychologist have always known, human motivation is more complex than this. Some people are motivated by only selfish reasons, but many others are not. Some people are motivated by a deep care for others, by compassion, sympathy, and respect. Importantly, as every parent would recognize, such motivational factors can be taught and learned. Human beings are no more naturally selfish and greedy than they are naturally kind and compassionate. Human beings have the capability of being both selfish and kind.

Once we recognize this fact (and philosophers from at least the time of Plato and Aristotle have recognized this), we can begin to separate those motivations that are likely to lead us to a good and meaningful life from those motivations that are likely to lead us to a life of unhappiness. The first set of motivation or character traits are called *virtues*, the latter are *vices*. An ethics of virtue seeks to develop the character traits and habits that will lead us to live a meaningful and happy human life. For virtue ethics, the acquisition of those traits becomes a fundamental question for ethics. Can we teach people to *be* honest, trustworthy, loyal, courteous, moderate, respectful, and compassionate?

Parents confront this question every day. I know my children will lead happier and more meaningful lives if they are honest, respectful, cheerful, and moderate and not greedy, envious, gloomy, arrogant, and selfish. Yet, simply telling my children to be honest and to avoid greed is insufficient. I cannot remain passive and assume that these traits will develop naturally. Instilling these character traits and habits is a long-term process that develops over time.

Business institutions also have come to recognize that character formation is both difficult and unavoidable. Employees come to business with certain character traits and habits, and these can get shaped and reinforced in the workplace. Hire a person with the wrong character traits, and there will be trouble ahead. Designing a workplace, creating a corporate culture, to reinforce virtues and discourage vice is one of the greatest challenges for an ethical business.

An ethics of virtue shifts the focus from questions about what a person should *do*, to a focus on what type of person one *is*. This shift requires not only a different view of ethics but, at least as important, a different view of ourselves. Implicit in this distinction is the recognition that our identity as a person is constituted in part by our wants, beliefs, motivations, values, and attitudes. A person's character—those dispositions, relationships, attitudes, values, and beliefs that popularly might be called a “personality”—is not some feature that remains independent of that person's identity. Character is not like a suit of clothes that you step into and out of at will. Rather, the self is identical to a person's most fundamental and enduring dispositions, attitudes, values, and beliefs.

As an example, consider the case of excessive executive compensation that opened this chapter. It is important to remember that not every CEO demands an exorbitant salary. The language of virtues and vices would seem very relevant as we think about the motivations involved. Why do some people demand hundreds of millions of dollars a year while others are happy with much less? Virtues such as modesty, moderation, self-control, unselfishness, and humility

come to mind when we think about a CEO who could, but does not, take an excessive salary. Self-indulgence, greed, callousness, competitiveness, and selfishness come to mind about the others. To a person with moderate and constrained desires, an exorbitant salary is simply not an option. It would be out of character.

Virtue ethics can offer us a more fully textured understanding of life within business. Rather than simply describing people as good or bad, right or wrong, scribe Aaron Feuerstein as heroic and courageous. He is a man of integrity, who sympathizes with employees and cares about their well-being. Other executives might be described as greedy or ruthless, proud or competitive. Faced with a difficult dilemma, we might ask what would a person with integrity do? What would an honest person say? Do I have the courage of my convictions?

But virtue ethics seeks more than a detailed description of business life. Like all ethical theories, virtue ethics is also prescriptive in offering advice on how we should live. Virtue ethics calls on us to reflect on two deeper questions. Given a more detailed and textured description of moral behavior, which set of virtues are more likely to embody a full, satisfying, meaningful, enriched, and worthy human life? Business provides many opportunities for behavior that is generous or greedy, ruthless or compassionate, fair or manipulative. Given these opportunities, each one of us must ask which character traits are likely to help us live a good life and which are likely to frustrate this. What type of person are we to be?

Besides connecting the virtues to a conception of a fuller human life, virtue ethics also reminds us to examine how character traits are formed and conditioned. By the time we are adults, much of our character is formed by such factors as our parents, schools, church, friends, and society. But powerful social institutions such as business and especially our own places of employment and our particular social roles within them (e.g., manager, professional, trainee) have a profound influence on shaping our character. An accounting firm that hires a group of trainees fully expecting that fewer than half will be retained and only a very small group will make partner encourages motivations and behavior very different from a firm that hires fewer people but gives them all a greater chance at long-term success. A company that sets unrealistic sales goals will find it creates a different sales force than one that understands sales more as customer service. Virtue ethics reminds us to look to the actual practices we find in the business world and ask what type of people are being created by these practices. Many individual moral dilemmas that arise within business ethics can best be understood as arising from a tension between the type of person we seek to be and the type of person business expects us to be.

Consider an example described to me by someone who is conducting empirical studies of the values found within marketing firms and advertising agencies. This person reported that on several occasions advertising agents told her that they would never allow their own children to watch the very television shows and advertisements that their own firm was producing. By their own admission, the ads for such shows aim to manipulate children into buying, or

getting their parents to buy, products that had little or no real value. In some cases the ads promoted beer drinking and the advertisers themselves admitted, as their "dirty little secret," that they were targeted for the teenage market. Further, their own research showed them how successful their ads were in increasing sales.

Independent of the ethical questions we might ask about advertising aimed at children, a virtue ethics approach would look at the type of person who is so able to disassociate oneself and one's own values from one's work, and the social institutions and practices that encourage it. What kind of person is willing to subject children to marketing practices that they are unwilling to accept for their own children? Such a person seems to lack even the most elementary form of personal integrity. What kind of institution encourages people to treat children in ways that they willingly admit are indecent? What kind of person does one become working in such an institution?

2.8 SUMMARY AND REVIEW

No doubt this survey of philosophical ethics might appear very abstract and far removed from the business world. Despite such appearances, these are fundamental categories for thinking about ethical issues. But we should resist the temptation to treat these theories as some external rules that should be applied to situations in a way that produces specific decisions. It is better to think of these theories as attempts to extract and articulate the basic principles already present in common ways of thinking. Once such principles are clearly described, the philosopher's role is to draw out their implications and offer justifications of them. Then the principles can be brought back to bear on practical decision making. Understood in this way, ethical theories are not as abstract and nebulous as they might at first appear. They have emerged from common ways of thinking as much as they are intended to guide our ways of thinking.

Consider utilitarianism. The fundamental insight of utilitarian thinking is that we should consider the consequences, all the consequences, of our actions before deciding what to do. A reasonable principle is that we should consider not only the consequences that our acts might have for ourselves, but also the consequences of our acts for all parties affected by them. The ethical theory of utilitarianism tries to work out the implications of this insight. In doing so, this theory has presented a powerful approach to answer the fundamental ethical question: How should we live our lives?

It would not be an overstatement to suggest that most economic decisions are implicitly justified on utilitarian grounds. Understanding utilitarianism, both its strengths and weaknesses, is necessary for developing a reasoned perspective on many economic matters. From the original rationale for market-based economies found in the works of Adam Smith, to the original legal rationale for creating limited-liability corporations, to much public policy and law-governing finance, employment, consumerism, and world trade, utilitarian considerations have played a prominent, if not deciding, role.