AN INTRODUCTION TO BUSINESS ETHICS

Third Edition

Joseph DesJardins
College of St. Benedict/St. John's University

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About the Author

Joe DesJardins is Associate Provost and Academic Dean, and Professor of Philosophy, at the College of St. Benedict and St. John's University in Minnesota. He also serves as the Executive Director of the Society for Business Ethics. He received his B.A. (1973) from Southern Connecticut State University, and his M.A. (1976) and Ph.D. (1980) from the University of Notre Dame. He previously taught for twelve years at Villanova University.

His books include *Environmental Ethics: An Introduction to Environmental Philosophy; Contemporary Issues in Business Ethics* (edited with John McCall); *Business Ethics: Decision Making for Personal Integrity and Social Justice,* with Laura Hartman (McGraw-Hill, 2007); and *Business, Ethics, and the Environment: Imagining a Sustainable Future.*

DISCUSSION CASE: Enron

On December 2, 2001, Enron Corporation, once listed as the seventh largest corporation among the Fortune 500, declared bankruptcy. (See the discussion case that opens chapter 6 for more detail.) In the months and years that followed, numerous other major corporations were found to have been guilty of similar accounting and financial frauds. A wave of scandals swept though the corporate world as fraudulent and dishonest practices were uncovered at such firms as WorldCom, Tyco, Aldelphia, Global Crossing, Qwest, Merrill Lynch, Citigroup Salomon Smith Barney, Marsh and McClennen, Credit Suisse First Boston, and even the New York Stock Exchange itself. But none of these captured the public's attention as did Enron.

Enron's collapse followed public disclosure of significant debts that had been concealed by complicated and fraudulent accounting practices. Not only were Enron's top executives deeply involved in this scheme, they personally received tens of millions of dollars from it. This massive ethical fraud was perpetrated with the support of Enron's accounting and auditing firm, Arthur Andersen, at the time one of the top five international accounting firms. Andersen played both ends of a conflict of interest by earning money both as Enron's auditor and as consultants in concealing these debts. To make matters worse, while the stock price was collapsing, senior executives sold hundreds of millions of dollars worth of stock to unwary investors, making personal fortunes from the collapse. During this same period, employees were prevented from selling their own stock that was held in their 401(k) retirement plans. Arthur Andersen's accountants, meanwhile, were busily shredding hundreds of documents that could have been used in criminal and civil legal cases. Enron's board of directors, and particularly their audit committee, twice waived internal rules of ethical conduct that prohibited the conflict of interest practices that enabled Enron executives to profit at the expense of shareholders.

DISCUSSION QUESTIONS

1. Identify any ethical issues involved in the Enron case.
2. Identify all the people who were harmed by Enron's collapse and explain the ways in which they were harmed.
3. Do you think that corporate scandals such as Enron are the result mostly of unethical individuals, or do you think that organizations can be responsible? Was this a failure of individuals, of organizational structure, or of government?
4. What would you change to try to prevent future Enrons?

1.1 WHY STUDY BUSINESS ETHICS?

Why should anyone study business ethics? As recently as the mid-1990s, articles in such major publications as the *Wall Street Journal*, the *Harvard Business Review*, and *U.S. News and World Report* questioned the legitimacy and value of teaching classes in business ethics. Few disciplines faced the amount of skepticism that commonly confronted courses in business ethics. Many students believed that, like "jumbo shrimp," business ethics was an oxymoron. Many also viewed ethics as a mixture of sentimentality and personal opinion that would interfere with the efficient functioning of business. After all, who's to say what's right or wrong?

Throughout the 1980s and 1990s, this skeptical attitude was as common among business practitioners as it was among students. But this simply is no longer the case in contemporary business. The questions today are less about *why* or *should* ethics be a part of business, than about *which* ethics should guide business decisions and *how* can ethics be integrated within business.[1] Students unfamiliar with ethical issues will find themselves as unprepared for careers in business as students who are unfamiliar with accounting and finance. Indeed, it is fair to say that students will not be fully prepared even within fields such as accounting, finance, human resource management, marketing, and management unless they are familiar with the ethical issues that arise specifically within those fields. You simply will not be prepared for a career in accounting, finance, or any area of business if you are unfamiliar with the ethical issues of these fields.

Why has this change come about? To answer this question, consider who was harmed by the collapse of Enron. Stockholders lost over a billion dollars in stock value. Thousands of employees lost their jobs, their retirement funds, and their health care benefits. Consumers in California suffered from energy shortages and blackouts that were caused by Enron's manipulation of the market. Hundreds of businesses that worked with Enron as suppliers suffered economic loss with the loss of a large client. Enron's accounting firm, Arthur Andersen, went out of business as a direct result. The wider Houston community was also hurt by the loss of a major employer and community benefactor. Families of employees, investors, and suppliers were also hurt. Many of the individuals directly involved will themselves suffer criminal and civil punishment, including jail sentences for some. Indeed, it is hard to imagine anyone who was even loosely affiliated with Enron who did not suffer harm as a result of the ethical failings at Enron. Multiply this harm by the dozens of other companies implicated in similar scandals and one gets an idea of why ethics is no longer dismissed as irrelevant. The consequences of unethical behavior and unethical business institutions are too serious to be ignored.

Today, business managers have many reasons to be concerned with the ethical standards of their organizations. Perhaps the most straightforward reason is that the law requires it. In 2002, the U.S. Congress passed the Sarbanes-Oxley Act to address the wave of corporate and accounting scandals. Section 406 of that law, "Code of Ethics for Senior Financial Officers," requires that corporations have a Code of Ethics "applicable to its principal financial officer and comptroller or principal accounting officer, or persons performing similar functions." The Code must include standards that promote

1. honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the issuer; and
3. compliance with applicable governmental rules and regulations.

Beyond these specific legal requirements, contemporary business managers have many other reasons to be concerned with ethical issues. Unethical behavior not only creates legal risks for a business, it creates financial and marketing risks as well. Managing these risks requires managers and executives to remain vigilant about their company's ethics. It is now clearer than ever that a company can lose in the marketplace, it can go out of business, and its employees can go to jail if no one is paying attention to the ethical standards of the firm. Ethical behavior and an ethical reputation can provide a competitive advantage, or disadvantage, in the marketplace and with customers, suppliers, and employees. Consumer boycotts based on allegations of unethical conduct have targeted such well-known firms as Nike, McDonalds, Home Depot, Gap, Shell Oil, Levi-Strauss, Donna Karen, K-Mart, and Wal-Mart. Managing ethically can also pay significant dividends in organizational structure and efficiency. Trust, loyalty, commitment, creativity, and initiative are just some of the organizational benefits that are more likely to flourish within ethically stable and credible organizations.

In 2003, Deloitte polled 5,000 directors of the top 4,000 publicly traded companies and reported that 98 percent believed that an ethics and compliance program was an essential part of corporate governance. Over 80 percent had developed formal codes of ethics beyond those required by Sarbanes-Oxley, and over 90 percent included statements concerning the company's obligations to employees, shareholders, suppliers, customers, and the community at large in their corporate code of ethics.[2] In practice, if not yet in theory, corporate America has adopted the stakeholder model of corporate social responsibility. Contemporary business now takes seriously its ethical responsibilities to a variety of stakeholders other than its shareholders.

For business students, the need to study ethics should now be as clear as the need to study the other subfields of business education. Without this background, students will be unprepared for a career in contemporary business. But even for students not anticipating a career in business management or business administration, familiarity with business ethics is just as crucial. It was not, after all, only the managers at Enron who suffered because of their ethical lapses. Our lives as employees, as consumers, as citizens are affected by decisions made within business institutions, and therefore everyone has good reasons for being concerned with the ethics of those decision makers.

The case for ethics is by now clear and persuasive. Business must take ethics into account and integrate ethics into its organizational structure. Students need to study business ethics. But what does this mean? What is *ethics* and what is *business ethics?* To begin our investigation let us turn to a more general question: Is ethics good for business?

1.2 VALUES AND ETHICS: DOING GOOD AND DOING WELL

As described in their best-selling book, *Built to Last: Successful Habits of Visionary Companies,* authors James Collins and Jerry Porras researched dozens of very successful companies looking for common practices that might explain their success. These companies not only outperformed their competitors in financial terms, they also have outperformed their competition over the long term. On average, the companies they studied were founded in 1897. Among their key findings was the fact that the truly exceptional and enduring companies all placed great emphasis on a set of core values. These core values are described as the "essential and enduring tenets" that help define the company and are "not to be compromised for financial gain or short-term expediency."[3]

Collins and Porras cite numerous examples of core values being articulated and promoted by the founders and CEOs of such companies as IBM, Johnson & Johnson, Hewlett Packard, Procter and Gamble, Wal-Mart, Merck, Motorola, Sony, Walt Disney, General Electric, and Philip Morris. Some companies made a commitment to customers as their core value; others focused on employees, their products, innovation, or even risk-taking. The common theme was that core values and a clear corporate purpose, what together are described as the organization's core ideology, were essential elements of enduring and financially successful companies.

These examples suggest that there are many different type of values. In general, we can think of values as those beliefs or standards that incline us to act or to choose in one way rather than another. Thus, the value that I place on an education leads me to study rather than play video games. I choose to spend my money on groceries rather than on a vacation because I value food more than relaxation. A company's core values, then, are those beliefs and principles that provide the ultimate guide in its decision making. Understood in this way, we can recognize that there can be many different types of values. There are financial, religious, historical, nutritional, political, scientific, and aesthetic values. Individuals can have their own personal values and, importantly, institutions also have values. Talk of a corporation's "culture" is a way of saying that a corporation has a set of identifiable values. All the companies described by Collins and Porras, as well as Enron, have been described as having strong corporate cultures and clear sets of values.

At first glance, *Built to Last* seems to reach an extremely attractive conclusion. The most successful companies all share in common a commitment to core values. This would seem to provide very persuasive reasons for any business to make a strong commitment to ethics. Good ethics seem to be connected to good business. Unfortunately, things are not as they appear. Collins and Porras are explicit in pointing out that while having a set of core values was essential in long-term success, they discovered no *right* set of core values. Their conclusion was that it was important only that companies have values, not that they have any particular values. In fact, executives at one of their "visionary" companies, Philip Morris, were described as defiant and self-righteous in their prosmoking ideology. The authors quote a *Fortune* magazine description of Philip Morris CEO Michael Miles as "ruthless, focused . . . cold-blooded." Miles is also quoted as saying "I see nothing morally wrong with the [tobacco] business. . . . I see nothing wrong with selling people products they don't need."[4]

Collins and Porras make a strong case for the conclusion that having a set of strong core values is important for the long-term financial success of a business. But, if these values can include ruthless and cold-blooded promotion of smoking, much more needs to be said about *ethical* values. One way to distinguish these various types of values is in terms of the ends that they serve. Financial values serve monetary ends, religious values serve spiritual ends, aesthetic values serve the end of beauty, and so forth. So, how are ethical values to be distinguished from these other types of values? What ends are served by ethics?

Values, in general, were earlier described as those beliefs or standards that incline us to act or choose in one way rather than another. Different types of values were distinguished by the various ends served by those acts and choices. Consider again the harm attributed to the ethical failures at Enron. Thousands of innocent people were hurt by the decisions made by some individuals seeking their own financial and egotistical aggrandizement. This example reveals two important elements of ethical values. First, ethical values serve the ends of human well-being. Acts and choices that aim to promote human well-being are acts and choices based on ethical values. Controversy may arise when we try to specify more precisely what is involved in human well-being, but we can start with some general observations. Happiness certainly is a part of it, as is respect, integrity, and meaning. Freedom and autonomy surely seem a part of human well-being, as do companionship and health.

Second, the well-being promoted by ethical values is not a personal and selfish well-being. After all, the Enron scandal resulted from many individuals seeking to promote their own well-being. Ethics requires that the promotion of human well-being be done impartially. From the perspective of ethics, no one person's well-being counts as more worthy than any other's. Ethical acts and choices should be acceptable and reasonable from all relevant points of view. Thus, we can offer an initial characterization of ethics and ethical values. Ethical values are those beliefs and principles that seek to promote human well-being in an impartial way.

Chapter 2 will examine the nature of philosophical ethics in more detail. But we should acknowledge that there are disagreements about what ethics commits us to and what ends are served by ethical values. There are also cases in which ethical values conflict, and such ethical dilemmas are a significant part of business ethics. The prosmoking values of Philip Morris, for example,

allegedly promoted the values of personal freedom and autonomy. Critics charge that these same values result in serious illness and death to many people. How do we decide if Philip Morris is an ethical company?

Simply, there are few if any unambiguous and absolute rules that can guide ethical decisions making. To evaluate the Philip Morris case we would begin by exploring the meaning and value of the freedom to choose relative to the value of health. We might also examine the motivation of Philip Morris executives to discover if they truly valued the personal freedom of their customers, or if their motivation was less impartial and more self-serving. Ethical controversy is only the starting point of philosophical ethics. Accordingly, one major goal of this text will be to emphasize reasoning and analytical skills as much as informational content.

Let us now return to the question with which this section began. Is ethics good for business? Consider Malden Mills, a well-known business case that made headlines some years ago.

During the early evening hours of December 11, 1995, a fire broke out in a textile mill in Lawrence, Massachusetts. By morning, the fire had destroyed most of Malden Mills, the manufacturer of Polartec fabric. The fire seemed a disaster to the company, its employees, its customers, and the surrounding communities. Malden Mills was a family-owned business, founded in 1906 and run by the founder's grandson Aaron Feuerstein. Polartec is a high-quality fabric well known for the outdoor apparel featured by such popular companies as L.L. Bean, Land's End, REI, J. Crew, and Eddie Bauer. As the major supplier of Polartec, the company had sales of $400 million in the year leading up to the fire. The disaster promised many headaches for Malden Mills, for its employees, for the numerous businesses that depend on its products, and for an entire community.

The towns surrounding the Malden Mills plant have long been home to textile manufacturing. The textile industry was born in the nineteenth century and thrived for one hundred years along the rivers in these New England towns. The textile industry effectively died during the middle decades of the twentieth century when outdated factories and increasing labor costs led many companies to abandon the area and relocate, first to the nonunionized south, and later to foreign countries such as Mexico and Taiwan. As happened in many northern manufacturing towns, the loss of major industries, along with their jobs and tax base, began a long period of economic decline from which many have never recovered. Malden Mills was the last major textile manufacturer in town and with 2,400 employees it supplied the economic lifeblood for the surrounding communities. Considering both its payroll and taxes, Malden Mills contributed approximately $100 million a year to the local economy. The fire was a disaster for many people and many businesses beyond those directly involved with Malden Mills.

As CEO and President, Aaron Feuerstein faced some major decisions, decisions that would be guided by his core values. He could have used the fire as an opportunity to follow his competitors and relocate to a more economically attractive area. He certainly could have found a location with lower taxes and cheaper labor and thus have maximized his earning potential. He could have simply taken the insurance money and decided not to reopen at all. Instead, as the fire was still smoldering, Feuerstein pledged to rebuild his plant at the same location and keep the jobs in the local community. But even more surprising, he promised to continue paying his employees and extend their medical coverage until they could be brought back to work. For this, Feuerstein became famous. Featured on television and in such magazines as *Fortune, Newsweek,* and *Time,* Mr. Feuerstein was honored by President Clinton and invited to attend the State of the Union address as the president's guest. He was praised by many as a model of ethical business behavior.

Initially, all went well. Malden Mills was able to rebuild its factory and reopen sections within a year. Employees came back to work and the community seemed to recover. Unfortunately, Malden Mills couldn't recover fully. Insurance covered only three-fourths of the $400 millions cost of rebuilding and by 2001 Malden Mills filed for bankruptcy protection. During the summer of 2004, Malden Mills emerged from bankruptcy but its board of directors was now controlled by its creditors, led by GE Commercial Finance Division. The new board replaced Aaron Feuerstein as CEO and Board Chairman, although he retained the right to buy back the controlling interest if he could raise sufficient financing. In October of 2004, the board rejected Feuerstein's offer to buy back the company. In response to the company's contract offer that included cuts in health care benefits, the union representing the remaining 1,000 workers at Malden Mills voted to authorize a strike in December 2004, the first in company history.

Are strong ethical values good for business? The only reasonable answer is that sometimes they are and sometimes they are not. Many of the companies examined by Collins and Porras seem to attain the ideal, high ethical standards and long-term financial success. Others, like Philip Morris, attained long-term success with values that would not indisputably be considered ethical. Some unethical companies, Enron perhaps most famously, failed as a business because of their ethical failures. Others, like Malden Mills, seem to suffer financially because of their high ethical standards. The record is mixed. The choice is yours.

1.3 THE NATURE AND GOALS OF BUSINESS ETHICS

How, then, might we define business ethics? In a descriptive sense, "business ethics" refers to those values, standards, and principles that operate within business. But "business ethics" also refers to an academic discipline that not only studies those standards, values, and principles, but also seeks to articulate and defend the ones that ought or should operate in business. In this way, business ethics includes normative as well as descriptive elements. This text is a contribution to that academic field of business ethics. Its aim is to describe, examine, and evaluate ethical issue that arise within business settings.

Unlike some business disciplines, there is no single set of answers in ethics, no single body of information, nor is there even a single framework for thinking about ethics. Business ethics is a truly multidisciplinary field, incorporating information from a variety of disciplines including philosophy, management, economics, law, marketing, and public policy.

Given this diversity, there is no single way—let alone single *right* way—to teach and learn business ethics. But this does not mean that there are not common goals, concepts, principles, and frameworks of business ethics. There is a growing body of scholarly literature in business ethics, and, in an academic setting at least, an important element of a course in business ethics is to become familiar with that scholarly literature. Just as there are Generally Accepted Accounting Principles (GAAP) for accountants, there are a set of principles, standards, concepts, and values common to business ethics. Chapter 2 will introduce some of the most common ethical theories and principles. But beyond this academic side, business ethics has a practical side in the sense that it aims at judgment, behavior, and actions. We all hope that books and classes in business ethics translate into more ethical behavior among business practitioners.

Unfortunately, things are not always that simple. First, there is the daunting gap between ethical judgment and ethical behavior. From at least the time of Plato and Aristotle, Western philosophy has acknowledged a real discontinuity between judging some act as right and following through and doing it. It is difficult enough knowing the difference between good and bad, right and wrong. But knowing is different from doing, and not everyone has the fortitude, strength of character, or motivation to act in ways that we know are best. While many observers expect an ethics class to teach ethical behavior, most ethicists have the more modest goal for their courses. It is not at all clear, for example, that an ethics course would have made any difference to the executives at Enron and Arthur Andersen.

A more modest and judicious goal for business ethics is to focus on the cognitive and intellectual (as opposed to behavioral) side of ethics. Business ethics as an academic discipline is more a matter of ethical reasoning and thinking than ethical behavior. But even here there is a major dilemma confronting ethics courses. On one hand, few would teach ethics in a way that aims to indoctrinate students. Few teachers would think that it is the role of an ethics course to *tell* students the right answers or *proclaim* what they ought to think and how they ought to live. The role of an ethics course should not be to convey information to a passive audience, but to treat students as active learners and engage them in an active process of thinking and questioning. Taking Socrates as the model, philosophical ethics rejects the view that blind obedience to authority or the simple acceptance of customary norms is an adequate ethical perspective. Teaching ethics must, on this view, involve students *thinking for themselves.* The unexamined life, Socrates claimed, is not worth living.

The problem, of course, is that when people think for themselves they don't always agree with each other, and they certainly don't always act in a way that others would judge as ethical. The other side of this dilemma is the specter of relativism and emotivism. If the ethics classroom does not teach students the right answers, many students will conclude that there are no right answers. If there are few teachers who use the classroom to preach ethical dogma, there are probably fewer still who believe that there are no right answers and that anything goes from an ethical point of view.

Thus a major challenge for business ethics is to find a middle ground between preaching the truth to passive listeners on one hand, and encouraging the relativistic conclusion that all opinions are equal on the other. A common goal for most courses in business ethics navigates this difficulty by emphasizing the *process* of ethical reasoning. Business ethics is concerned more with reasoning than answers. Responsible reasoning must begin with an accurate and fair account of the facts; one must listen to all sides with an open mind, one must become familiar with all the relevant issues at stake, and one must pursue the logical analysis of each issue fully and with intellectual rigor. Business ethics essentially involves this process of ethical analysis. Without it, one risks turning ethics into dogmatism; with it, one has gone as far as possible to deflate relativism. With this process, we are best prepared to avoid the dilemma of dogmatism and relativism.

This dilemma not only confronts business ethics in an academic setting, it is also true for ethics within business settings as well. Even if they could be successful in doing so, few business managers would want to approach ethical issues by making pronouncements of ethical dogma. Like good teachers, good business managers and leaders seek to empower their employees to make their own decisions. But responsible businesses also do not suggest that anything goes or that all values are equal. Value relativism in the workplace will likely lead only to power struggles and conflict.

1.4 BUSINESS ETHICS AND THE LAW

Some believe that the way out of this dilemma is to concentrate on legal compliance. For many business people, ethics is identified with the law. Business behaves ethically when it obeys the law. An ethical business, therefore, should have an ethics officer or an ethics department that monitors compliance with the legal and professional standards of conduct.

Unfortunately, compliance with the law alone will prove insufficient for ethically responsible business. It is common to think of the law as a set of rules that one can obey or violate in an unambiguous way. Traffic laws, for example, require stopping at a red light and prohibit speeds over a certain limit. But this is a very incomplete understanding of the law. Even when there are specific regulations requiring or prohibiting certain action, ambiguity is always possible in the application of those regulations.

For example, consider the following case. At a management training program I recently attended, two corporate attorneys outlined some of the legal responsibilities for managers under the Americans with Disabilities Act. This law requires business to make "reasonable accommodations" for workers with disabilities. This law goes on to specify some, but not all, of the conditions that would count as a disability. During the question period, one manager explained that she had an employee who suffered from asthma and she wondered if asthma was a disability. The two attorneys conferred for a moment and answered simply: "It depends." The law's definition of a disability involves, in part, how serious the impairment is, how much it limits the worker's life activities, and whether or not it is easily corrected by medication. Given this ambiguity, the manager must make a judgment about how to treat this worker. Imagine this manager is committed to doing the ethically correct thing, but believes that one's ethical responsibility is to obey the law. What should this manager do? In such a case, the decision is unavoidable, the law doesn't help, and the manager therefore is forced to make a judgment about what ought to be done.

More generally, much of the civil law governing business is based on the legal precedents of case law rather than specific statutes or regulations. Case law is fundamentally ambiguous in a way that statutory law is not. In a very real sense, many acts are not illegal until a court rules that they are. For example, both the attorneys and the auditors in the Enron case were expected to "push the envelope" of legality by Enron's aggressive management practices. Given that many of Enron's financial practices were quite literally unprecedented, their attorneys and accountants offered advice that they believed could be defended in court. Until and unless these acts were challenged in court there was a real sense in which they were perfectly legal. While admittedly "pushing the envelope" on accounting and tax regulations, what they did was not obviously illegal.

These facts demonstrate that one cannot always rely on the law to decide what is right or wrong. The manager whose employee suffers from asthma will need to make a decision and the law won't decide this for her. Sometimes, the law itself requires ethical analysis for many of its decisions. Legal decisions in the Enron case will not be based solely on legal precedent (since, by definition, "pushing the envelope" is to go into the gray area beyond what is obviously prohibited by precedent) but upon a judge and jury's determination that the acts were unfair and unethical. Because most business decisions never get to the point where a judge and jury are asked to make a determination, business managers will be faced with the unavoidable responsibility of looking beyond the law for guidance in making ethical decisions.

Expressed in these terms, perhaps the major reason to study ethics is because whether we *examine* ethical questions explicitly or not, they are *answered* by each and every one of us every day in the course of living our lives. Presumably, the executives at Enron did not wake up one morning and choose to defraud their stockholders and employees. The actions we take and the lives we lead give practical answers to these fundamental ethical questions. Our only real choice is whether we answer them deliberately or unconsciously. Thus, the philosophical answer to why you should study ethics was given by Socrates over 2,000 years ago. "The unexamined life is not worth living."

1.5 ETHICS AND ETHOS

Ethics is a vast field of study that really addresses only one question: How should we live our lives? The question of human well-being ultimately focuses on how we should live. But while this may seem a simple question, it is perhaps the most fundamental question any human can ask. We can begin to answer it by reflecting on the nature of philosophical ethics. Within the Western tradition philosophical ethics is often traced to the ancient Greek philosopher Socrates. There is perhaps no better characterization of ethics than Socrates' statement that it "deals with no small thing, but with how we ought to live." Like all cultures, the Greeks had a set of beliefs, attitudes, and values that guided their lives. The word *ethics* is derived from the Greek word *ethos,* meaning "customary" or "conventional." Most Greeks would have answered Socrates by claiming that we ought to live an ethical life. Like most people in other cultures, an ethical life for the Greeks would have been a life lived according to the beliefs, attitudes, and values that were customary in their own culture. Often, these customary values are connected to a culture's religious worldview. To be ethical, in the sense of *ethos,* is to conform to what is typically done, to obey the conventions and rules of one's society and religion. In this sense, *ethics* would be identical to *ethos.*

Taking its lead from Socrates, philosophical ethics is not content to accept this as an answer to the question of how we should live. We said earlier that each one of us answers ethical questions every day by how we choose to live our lives. For many people, this choice is made implicitly by conforming to the ethos and customs of their culture. Philosophical ethics denies that simple conformity and obedience are the best guides to how we should live. From the very beginning, philosophy rejects authority as the source of ethics and has, instead, defended the use of reason as the foundation of ethics. Philosophical ethics seeks a reasoned analysis of custom and a reasoned defense of how we ought to live.

Philosophical ethics distinguishes what people *do* value from what people *should* value. What people do in fact value is the domain of such social sciences as sociology, psychology, and anthropology. As a branch of *philosophy,* however, ethics asks us to step back and rationally evaluate the customary beliefs and values that people do hold. Philosophical ethics requires us to abstract ourselves from what is normally or typically done, and reflect upon whether or not what *is* done, *should* be done, and whether what *is* valued, *should* be valued. The difference between what *is* valued and what *ought* to be valued is the difference between ethos and ethics.

Perhaps this observation helps to explain some of the skepticism surrounding business ethics. Any philosophical focus on business ethics seems to suggest some dissatisfaction with, or misgivings about, what is normally or customarily done in business. Why step back from what is normally done unless you have reason to doubt that what is being done should be done? But while philosophical ethics is *critical* in the sense of demanding reasons for each decision, it need not be *critical* in the sense of rejecting or disagreeing with the customary norms and standards.

As a branch of philosophical ethics, business ethics asks us to step back from our daily decisions, step back from the ethos of business, to reflect upon how business decisions affect our lives. In what ways do the practices and decisions made within business promote or undermine human well-being? Raising these questions does not imply that what is normally being done is unethical. After examining ethical issues in business, we may end up defending the same values and making the same decisions that we would have originally. But what philosophical ethics does require is a conscious reflection and analysis of those beliefs and values upon which we act. Again, to rely on Socratic wisdom, philosophical ethics assumes that "the unexamined life is not worth living." As we proceed through an examination of business ethics, we are really doing little more than reflecting upon daily events and echoing Socrates' question: How ought we to live?

1.6 MORALITY, VIRTUES, AND SOCIAL ETHICS

How ought we to live? This fundamental question of ethics can be interpreted in two ways. "We" can mean each one of us individually, or it might mean all of us collectively. In this first individual sense, this is a question about how I should live my life, how I should act, what I should do, what kind of person I should be. This meaning of ethics is sometimes referred to as morality. Part of morality involves examining principles and rules that might help us decide how to act. Another important part of morality involves an examination of those character traits, or virtues, that would constitute a life worth living. This distinction is sometimes made in terms of deciding how we should *act,* and deciding the type of person we should *be.* In the collective sense, this is a question about how a society ought to be structured, about how we ought to live together. This area is sometimes referred to as social ethics and it raises questions of public policy, law, civic virtue, and political philosophy.

Business ethics addresses both kinds of questions. Questions of individual morality will be a major theme throughout this text. One of the most fundamental goals of business ethics is to provide opportunities for students to step back from the immediate concerns of day-to-day life and ask: "What kind of person should I be?" "What should I do?" "What kind of life will I live?" "What would I have done if I were in the position of an auditor at Enron?" Is the kind of greed, aggressiveness, and selfishness exhibited at Enron a model for my life?

No doubt most of us at most times of our lives are too concerned with more immediate issues such as completing an assigned task, paying our bills, and having fun, to consciously step back and ask about the meaning and value of what we do. But this is what philosophical ethics demands. Morality takes the larger perspective. Imagine late in your life looking back to reflect on the kind of life you have led and asking: "Has this life been worth living? Am I proud of my life? Am I proud or ashamed of the person I have been? Has this been a full and meaningful life?" These are among the fundamental questions of morality.

Business ethics also addresses issues of social ethics and public policy. Understanding this viewpoint can start with the recognition that business institutions are human creations. The fact that businesses are human institutions means that humans cannot avoid responsibility for them. As the Enron case indicates, business institutions have a tremendous influence on many lives. We depend on business for our jobs, our food, our health care, our homes, our livelihoods. The public policy perspective invites us to step back from the actual practice of business to ask: "How *should* business be structured?" If we had it all to do over again, how would we arrange business institutions in our society? In this sense, public policy questions ask us to take the point of view of the citizen who is deciding how society—and business institutions are a part of society—ought to be organized and conducted.

When we ask this question we can see that important ethical questions remain even when the particular decision facing an individual business manager appears clear-cut. As an executive at Enron, you are free to pursue energy trading business, but citizens get to decide whether or not to regulate energy and public utilities to control such trading. Should such important social goods as energy be left in the hands of unregulated private corporations?

1.7 ETHICAL PERSPECTIVES: MANAGERS AND OTHER STAKEHOLDERS

This focus on questions of morality and public policy also calls attention to the fact that a variety of perspectives can be taken when examining issues in business ethics. A major part of business ethics deals with questions of management. *Business* ethics often is interpreted to mean the ethics of those charged with acting on behalf of a business. What should a business *manager* do in various situations? In this sense, business ethics can be interpreted as managerial ethics.

But, a decision faced from the point of view of business management raises different issues than those faced from the point of view of employees or owners. Decisions made within Enron and Arthur Andersen were of monumental importance to employees, suppliers, and customers, as well as to the citizens of Houston and California. This is not to suggest that right or wrong depends on who is asking the question. But it does suggest that the types of questions asked and issues faced will vary from perspective to perspective. Because a reasoned evaluation of any ethical issue demands that all relevant concerns be addressed, this text will regularly ask you to shift perspectives and ask the moral questions from the point of view of management, employees, owners, consumers, suppliers, and citizens. Whether our future interaction with business occurs in the role of CEO or just plain consumer, we must examine business decisions from a variety of perspectives.

These observations suggest that all decisions faced by business managers, from finance and marketing to ethics and human resources, exist in a social and legal context. This context not only helped create the situation but also determines what alternatives are available. Whatever social arrangements exist, we need to recognize that each of us, in our roles as citizens, is responsible for them. A mature, responsible life requires us to step back and reflect upon the kind of society we choose to live in, as well as the particular decisions we choose to make.

We can summarize this introduction by saying that business ethics asks us to step back from what is usually and customarily done in the business world to ask the essential normative question of ethics: "How *should* we live? How should I live as an individual, and how should we live in community?" Throughout this text, indeed throughout your life, you should regularly step back to ask: "What kind of person am I choosing to be?" and "What kind of society ought we to create?" To return to our opening question, the study of ethics is relevant to business because it is essential to living a responsible and meaningful life.

REFLECTIONS ON THE CHAPTER DISCUSSION CASE

Several lessons can be drawn from this brief description of Enron. The Enron case demonstrates the wide range of people who can be adversely affected by the decisions made within contemporary business. Each and every day the lives and well-being of millions of people depend on decisions made by business managers from small family-run businesses to the world's largest corporations. Recognition of this fact has led many to argue that the social responsibility of business must recognize duties to a wide range of stakeholders beyond simply those people who own a company's stock.

The collapse of Enron and the widespread harm caused by that collapse surely can be traced to the ethical corruption of specific individuals working for the firm. Arrogant and greedy individuals willing to violate legal and ethical standards can be faulted for much of the problem. Unfortunately, such people are all too common. But we should also recognize the failure of the many "gatekeepers," those people and institutions whose role is to provide checks on such behavior. Auditors, accountants, attorneys, financial analysts, board members, and government regulators have roles to play within the economic system to insure the integrity of that system and to prevent fraud and abuse. Another lesson from Enron is that there was a systematic breakdown in this gatekeeping function.

Preventing future Enrons will require steps to be taken at each level: individual employees with higher ethical standards, internal structures within corporations to establish and enforce higher standards, legal requirements and other regulatory reforms to act as external checks upon corporate behavior.

REVIEW QUESTIONS

1. Describe several reasons why ethics is relevant to business. Can a "good business" be an unethical business?