**IM Chapter 1:**

**Ethics and Business**

**Chapter Objectives**

After reading this chapter, students will be able to:

1. Explain why ethics is important in the business environment.

2. Explain the nature of business ethics as an academic discipline.

3. Distinguish the ethics of personal integrity from the ethics of social responsibility.

4. Distinguish ethical norms and values from other business-related norms and values.

5. Distinguish legal responsibilities from ethical responsibilities.

6. Explain why ethical responsibilities go beyond legal compliance.

7. Describe ethical decision-making as a form of practical reasoning.

**Opening Decision Point**

**The Meaning of “Good”**

Sodexo is one of the largest food services corporations in the world, serving corporations, schools, government agencies, and hospitals. In 2011, Sodexo announced that it would participate in the “Meatless Monday” campaign, a non-profit effort urging consumers to eliminate or reduce the amount of meat consumed just one relatively painless day each week. Sodexo’s participation meant that the company’s cafeterias began providing meat-free main dishes and main dishes with less meat, along with educational materials for customers. There were several reasons to believe that the project could result in a best-case scenario of corporate social responsibility. Serving less meat is good for the environment, good for consumers' health, and (since meat is an expensive ingredient) possibly good for the bottom line. From both an ethics and a business point of view, it seemed like a reasonable marketing experiment. Sodexo clearly wanted to do what is best for its customers and for society more generally. But the company also had to take under consideration its obligation to give customers what they want, in order to continue making a profit. Listed below are some of the major challenges that Sodexo confronted. Students should ask themselves if they are insurmountable and consider how they would resolve some of them.

1. Different people have different attitudes towards the ethics of producing, eating, and selling meat. Some people think it deeply unethical. Others think it not ethically problematic at all. Still others believe that we should reduce the amount of meat we eat, but not eliminate it from our diets altogether. For a company like Sodexo, with a broad customer base, this means that there is no clear social consensus to use as a guide for corporate policy.

2. Even if participating in the “Meatless Monday” program does not threaten Sodexo’s survival, what if consumers do not appreciate the effort, and the program negatively impacts profits? A profitable company like Sodexo can arguably stand to lose a small portion of its profit margin. Some people would say that profit reduction is justified in the pursuit of social goods, such as improved nutrition or reduced animal suffering. Of course, shareholders may disagree. It is not obvious how to balance small reductions in profit with a company’s social obligations.

3. There’s a saying that “the customer is always right.” But clearly there are limits on what any responsible company is willing to sell – every company faces choices in this regard. Many food products are especially challenging that way, because there are foods that are harmless when consumed in moderation, but unhealthy when consumed in large quantities. It is not clear how much responsibility companies have for the choices consumers make.

1. **Introduction: Making the Case for Business Ethics**
   1. **Historical context:** Even though years have passed and other scandals have occurred, we still refer to the 2001 Enron Corporation collapse as the watershed event in this century’s business ethics news and, since that time, ethics and values have seldom strayed from the front pages of the press.
   2. **Ethical decision-making in business:** Not at all limited to the type of major corporate decisions with dramatic social consequences. At some point every worker, and certainly everyone in a management role, will be faced with an issue that will require ethical decision-making.
   3. **Relationship between economic and moral values:** How should we conceive of the relationship between business and market activity, on the one hand, and ethical concerns, on the other? This is not a new question, but one that can be found since the very dawn of modern capitalism.
      1. The relationship between Adam Smith’s two books, *The Wealth of Nations* and *The Theory of Moral Sentiments*, can be seen as representing this question.
      2. The issue of the relationship of economic and moral values is addressed in the study of business ethics.
   4. **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.
   5. **Leaders realize that they can no longer afford this approach** in contemporary business. The direct costs of unethical business practice are more visible todaythan perhapsthey have ever been before.
   6. **The first decade of the new millennium** was been riddled with highly-publicized corporate scandals, the effects of which did not escape people of any social or income class. Moreover, we saw the economy begin a downward spiral into one of the largest financial crises of the last 80 years.
   7. **These lending and trading efforts encouraged bad debt to appreciate** beyond levels that the market could bear. The inevitable correction caused real estate values in most markets to decline sharply, domestic credit markets to freeze, and the federal government to intervene with a rescue package.
   8. **Economic turmoil incites misconduct**; there is a significant *bump* in observed workplace misconduct during times of economic challenges. Some money-saving strategies deployed by struggling companies, such as compensation/benefit reductions and hiring freezes, have been found to increase misconduct by more than 35 percent.
      1. In turn, misconduct based on fraud, alone, causes an estimated 5% loss of annual revenues, equivalent to more than $2.9 trillionof the 2009 Gross World Product.

**\*Chapter Objective 1 Addressed Below\***

* 1. **To understand the origins of the shift** from *whether* ethics or values should play a role in business decisions to the almost frantic search for *how* most effectively (and quickly!) to do it, consider the range of people who were harmed by Bernie Madoff’s Ponzi scheme: Investors, businesses, schools, non-profit organizations, retirees, and the communities in which these people live.
  2. **Expansion of ethically responsible business decision-making:** Ethically responsible business decision-making must move beyond a narrow concern with stockholders, and consider the impact that decisions will have on a wide range of stakeholders. In a general sense, a business *stakeholder* will be anyone affected, for better or worse, by decisions made within the firm.

**\*Reference: “Reality Check - *Why Be Ethical? Because the Law Requires It*”*\** (**describes some legal requirements that have been created since the Enron fiasco)

* 1. **Reasons to be concerned with ethical issues:** Beyond specific legal obligations, contemporary business managers have many other reasons to be concerned with ethical issues.
     1. Unethical behavior not only creates legal risks for a business, it creates financial and marketing risks as well.
     2. Managing these risks requires managers and executives to remain vigilant about their company’s ethics.
     3. A firm’s ethical reputation can provide a competitive advantage, or disadvantage, in the marketplace and with customers, suppliers, and employees.
     4. Managing ethically can also pay significant dividends in organizational structure and efficiency.
     5. 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

**\*Reference: “Reality Check - *Why Be Good?*”*\****

* 1. **Reasons to be concerned with ethical issues** f**or business students**: The need to study ethics should be as clear as the need to study the other sub-fields of business education. Without this background, students simply will be unprepared for a career in contemporary business.
     1. But, even for students not anticipating a career in business management or business administration, familiarity with business ethics is just as crucial.
  2. **As leaders and as emerging leaders**, we need to explore how to manage the ethical behavior of others so that we can impact their decisions and encourage them to make ethical, or more ethical, decisions.
  3. **The case for business ethics is clear and persuasive**. Business must take ethics into account and integrate ethics into its organizational structure. Students need to study business ethics.

1. **Business Ethics as Ethical Decision-making**
2. **So** **what is the point of a business ethics course**?
   * 1. As the title of this book suggests, our approach to business ethics will **emphasize *ethical decision-making****.*
     2. **Historical Context:** On one hand, *ethics* refers to an academic discipline with a centuries old history and we might expect knowledge about this history to be among the primary goals of a class in ethics.
        1. Thus, in an ethics course, students might be expected to learn about the great ethicists of history such as Aristotle, John Stuart Mill, and Immanuel Kant. As happens in many other courses, this approach to ethics would focus on the***informational* *content*** of the class.

**\*Chapter Objective 2 Addressed Below\***

* + 1. **Ethical Behavior/Normative Content:** Yet, according to some observers, learning about ethical theories and gaining knowledge about the history of ethics is beside the point.
       1. Many people, ranging from businesses looking to hire college graduates to business students and teachers themselves, expect an ethics class to address **ethical *behavior***, not just information and knowledge about ethics.
       2. After all, shouldn’t an ethics class help prevent future Madoffs? *Ethics* refers not only to an academic discipline, but to that arena of human life studied by this academic discipline, namely, **how human beings properly should live their lives.**
    2. **The Role of Influence . . .** Yet, there is an appropriate caution about influencing behavior within a classroom.
       1. Part of this hesitation involves the potential for abuse; expecting teachers to influence behavior may be viewed as permission for teachers to impose their own views on students.
       2. Many believe that teachers should remain value-neutral in the classroom and respect a student’s own views.
       3. Another part of this concern is that there can be a narrow line between motivating students and manipulating students.
          1. There are many ways to influence someone’s behavior, including threats, guilt, pressure, bullying, and intimidation.
          2. Some of the executives involved in the worst of the recent corporate scandals were very good at using some of these means to motivate the people who worked for them.
       4. Presumably, none of these approaches belong in a college classroom, and especially not in an ethical classroom. [**Teaching Note:** this would be a good opportunity to discuss appropriate and inappropriate means for getting students to complete their homework assignments. What teaching methods respect students? Which disrespect them? Why? Contrast this to managerial influence: are there some inappropriate ways for managers to get workers to complete a task?]
       5. But not all forms of influencing behavior raise such concerns. There is a major difference between manipulating someone and persuading someone, between threats and reasons. This textbook resolves the tension between knowledge and behavior by emphasizing ethical judgment, ethical deliberation, and ethical decision-making.
       6. We agree with those who believe that an ethics class should strive to produce more ethical behavior among the students who enroll.
          1. But we believe that the only academically and ethically legitimate way to do this is through careful and reasoned decision-making.
          2. Our fundamental assumption is that a process of rational decision-making, a process that involves careful thought and deliberation, can and will result in behavior that is both more reasonable and more ethical.

1. **Role of a Course:** Teaching ethics must, on this view, involve **students *thinking for themselves****.*
2. **Business Ethics as Personal Integrity and Social Responsibility**
3. **Social circumstances** are another element of our environment that impact our ethical decision-making and behavior.
4. **Social Context:** An individual may have carefully thought through a situation and have decided what is right, and then may be motivated to act accordingly. But the corporate or social context surrounding the individual may create serious barriers to behave in that way.
5. As individuals, we need to recognize that our social environment will greatly influence the range of options that are open to us and can significantly influence our behavior.
6. People who are otherwise quite decent can, under the wrong circumstances, engage in unethical behavior while less ethically-motivated individuals can, in the right circumstances, do the “right thing.”
7. **Ethical Leadership:**
8. Business leaders therefore have a responsibility for the business environment that they create; what we shall later refer to this environment as the “corporate culture.” The environment can therefore strongly encourage or discourage ethical behavior.
9. Ethical business leadership is precisely this skill: to create the circumstances within which good people are able to do good, and bad people are prevented from doing bad. [**Teaching Note**: See the hypothetical case described below (II.d.5). How might a CEO who seeks to end unequal salary structures change the work environment to address the dilemma of unequal pay resulting from unequal salary expectations among male and female candidates?]
10. The Enron case provides an example. Sherron Watkins, an Enron vice president, seemed to understand fully the corruption and deception that was occurring within the company, and she took some small steps to address the problems within the Enron environment. But when it became clear that her boss might use her concerns against her, she backed off. The same circumstances were involved in connection with some of the Arthur Andersen auditors. When some individuals raised concerns about Enron’s accounting practices, their supervisors pointed out that the $100 million annual revenues generated by the Enron account provided good reasons to back off. The “Sherron Watkins” Decision Point, below, exemplifies the culture present at Enron during the heat of its downfall.

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| **Decision Point Sherron Watkins**  Sherron Watkins, a VP at Enron, sent a memo to CEO Ken Lay expressing concerns about the company’s questionable accounting practices. She was hoping to turn things around in order to right the wrongs before they were exposed to the public. She brought to his attention the fact that many people knew about, or were suspicious about, the inappropriate behavior occurring at the firm and that they would not be able to hide it much longer. She also voiced her concern for the investors as well as for the Enron employees that she knew were aware of the situation and were almost desperate for the company to get caught.  Watkins was featured on the cover of *Time* magazine after Enron’s collapse and honored as a corporate whistleblower, although she never shared her concerns with anyone other than Ken Lay before “blowing the whistle.” Was Watkins an ethical hero in taking these steps? Should she have gone further in reporting potential wrongdoing to outside authorities? As in the case of Aaron Feuerstein, This can be another opportunity to raise the distinction between ethically obligatory acts and heroic acts (ethically praiseworthy, but not required).  Students are asked to consider the following questions in determining whether Watkins was an ethical hero:   1. What facts would you want to know before making a judgment about Watkins? What ethical issues does this situation raise? 2. Besides Kenneth Lay, who else might have had an interest in hearing from Watkins? Who else might have had a right to be informed? Did Watkins have a responsibility to anyone other than Lay? 3. Other than informing Lay, what other alternatives might have been open to Watkins? 4. What might the consequences of each of these alternatives had been? 5. From this section of the memo, how would you characterize Watkins’ motivation?  What factors seem to have motivated her to act? 6. If you were Ken Lay and had received the memo, what options for next steps might you have perceived? Why might you have chosen one option over another? 7. Do you think Watkins should have taken her concerns beyond Kenneth Lay to outside legal authorities? |

**\*Chapter Objective 3 Addressed Below\***

1. **The Ethical Question:** Ethics involves what is perhaps the most monumental question any human being can ask: **How *should* we live?**
2. Ethics is, in this sense, *practical*, having to do with how we act, choose, behave, and do things.
3. Philosophers often emphasize that ethics is **normative**, which means that it deals with our reasoning about how we *should* act.
4. Social sciences such as psychology and sociology also examine human decision making and actions, but these sciences are **descriptive** rather than normative. When we say that they are descriptive, we refer to the face that they provide an account of how and why people *do* act the way they do; as a normative discipline, ethics seeks an account of how and why people *should* act, rather than how they *do* act.
5. **How should we live?** This fundamental question of ethics can be interpreted in two ways.
6. "We" can mean each one of us individually, or it might mean all of us collectively.
7. In the first sense, this is a question about how I should live my life, how I should act, what I should do, and what kind of person I should be. This meaning of ethics is based on our value structures, defined by our moral systems; and, therefore, it is sometimes referred to as morality. It is the aspect of ethics that we refer to by the phrase “personal integrity.” If morals refer to the underlying values on which our decisions are based, ethics refers to the applications of those morals to the decisions themselves.
8. In the second sense, “How should we live?” refers to how we live together in a community. This is a question about how a society and social institutions such as corporations ought to be structured and about how we ought to live together. This area is sometimes referred to as social ethics and it raises questions of justice, public policy, law, civic virtues, organizational structure, and political philosophy.
9. In this sense, business ethics is concerned with how business institutions ought to be structured, about whether they have a responsibility to the greater society (corporate social responsibility or CSR), about making decisions that will impact many people other than the individual decision maker.
10. We refer to this broader social aspect of ethics as decision-making for social responsibility.
11. **Teaching Note:** The following hypothetical case can be used to highlight the distinction between the ethics of individual integrity and the social justice. Imagine an HR manager who is hiring two employees. Assume that the top two candidates, one male and one female, are equally qualified and that the HR manager wishes to hire both. Assume that the HR manager himself will get evaluated, in part, by how well he controls compensation expenses. As a result, he has both a professional and personal responsibility to pay the lowest salary that is necessary to get the candidate to accept the position. At the last interview, the manager asks each about their salary expectations. Imagine that the female candidate asks for a salary that is substantially below what the male asks. He knows that the male may not accept the job offer at a lower salary, and knows that the female is willing to accept the lower offer. What responsibility does the HR manager have for paying equally qualified employees? If the manager pays the female less, would you characterize him as sexist? Is this decision unfair workplace discrimination? Imagine now that the HR manager is a woman? Would this change your judgment? A good discussion can follow on how particular social contexts can shape decisions and, despite the best intentions of individuals involved, result in socially undesirable consequences.

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| Decision Point  **Management and Ethics**  Imagine that you are examining this chapter’s opening scenario in one of your classes on Organizational Behavior or Managerial Finance. What advice would you offer to Sodexo? What judgment would you make about this case from a financial perspective? After offering your analysis and recommendations, reflect on your own thinking and describe what values underlie those recommendations.  • What facts would help you make your decision?  • Does the scenario raise values that are particular to managers?  • What stakeholders should be involved in your advice?  • What values do you rely on in offering your advice? |

1. **Ethical Decision-Making:** Within a business setting, individuals will constantly be asked to make decisions affecting both their own ***personal integrity*** and their ***social responsibilities***.
2. Each decision made by a business manager involves not only a personal decision, but also a decision on behalf of, and in the name of, an organization that exists within a particular social, legal, and political environment.
3. Whatever decision business managers make, they will have taken a stand on an ethical issue, at least implicitly.
4. The actions each one of us takes and the lives we lead give very practical and unavoidable answers to fundamental ethical questions.

**Decision Point**

**Ethics After an Oil Spill**

***The following answers are lengthier than those that follow in the rest of this Instructors’ Manual in order to give a bit of guidance at the outset.***

**Ethics After an Oil Spill**

In 2011, an oil pipeline owned by the energy company Enbridge sprung a leak near the town of Wrigley in the Canadian Northwest Territory. The citizens of Wrigley maintain a traditional style of life that depends on the health of local forests and waterways. Environmental protection isn’t just a question of principle for the people of Wrigley; it’s a matter of survival. Enbridge devised a detailed cleanup plan - a complex technical document 600 pages long. When the company offered $5,000 so that the community could hire its own experts to evaluate the plan, locals were offended by such a tiny payment. This was a significant blow to Enbridge’s image, coming shortly after another Enbridge pipeline ruptured in Michigan. And at the same time, Enbridge was in the midst of trying to win approval for a new project in the face of opposition from environmental groups.

The company faced a number of difficult issues in the wake of the Wrigley spill. First, Enbridge had to clean up the spilled oil. Then, they had to consider the issue of remediation – the restoration the polluted land back to something like its original state. Further, there was the question of compensation to the local community for the pollution and loss of use of some of their traditional hunting grounds. All of this was set against a backdrop of controversy surrounding the impact that oil pipelines have on the lands and communities through which they run.

**What do you think motivated the company’s decision to offer the community $5,000 to hire its own expert? Why do you think the community was insulted? If you were the company’s local manager, what would you have done?**

This case provides an opportunity to accomplish several introductory goals. In the most general terms, this discussion helps in exploring with the students prior to chapters two and three the source/origins of our values or strongly held beliefs, what encourages us to make the decisions that we make, the “whys” behind our choices.

One can use the case as a means for discussing decision-making: What options are available to Enbridge? How would it decide? What factors are relevant to the decision? What is a rational decision? Ask students to take various points of view—Enbridge, its financial advisor, the city’s mayor, Wrigley’s citizens—and contrast likely alternative decisions.

One can also use the case to subtly introduce various perspectives on ethics: what is the difference between doing something ethically required and doing something heroic or charitable? On what grounds do you reach your own opinion about Enbridge? What type of company is it, and what is its corporate character?

This case also allows for an introduction to the basic debate about corporate social responsibility: What responsibilities does a company have to the community in which it is located? For whose benefit ought a company be operated? Enbridge is a publicly traded corporation. How might the factors considered in its decision-making change if it were privately controlled?

**What facts would be helpful to you, as an outsider, in evaluating the company’s behavior after the spill?**

It would be helpful to know the business’ financial situation before the oil spill, the company’s environmental record prior to the spill, any prior relationship the company had to Wrigley, what alternatives were available and how feasible each would be. In addition, did the firm have a mission statement, or any other obligations to Wrigley or others that the students believe should be upheld? What are other possible sources of “obligations?”

**What values are involved in this situation? How would Enbridge answer that question, internally? How would the people of Wrigley answer that question, if asked?**

There are a number of different ethical values involved in this situation. Challenge the students to explore their origins and examine what Enbridge should consider as the responsible party in the spill, what are its contractual obligations, its social responsibilities, its rights/duties and the rights/duties of the people of Wrigley. What is the fair thing to do, what is the loyal and kind thing to do in this situation, and what might a “virtuous” company do under these circumstances? What is reasonable for the people of Wrigley to expect from Enbridge?

**Did Enbridge have obligations that went beyond cleaning up the area directly affected by the spill from the company’s pipeline? Were they obligated to offer the $5,000? Consider the suggestion made by a member of the community, that Enbridge should donate money to build a swimming pool or hockey arena for local kids. Would a donation of this kind help to satisfy the company’s obligations to the community?**

Enbridge’s actions were considered insulting by the community, even though it had no contractual or other legal obligation beyond the cleanup laid out in its plan. The spirit of Enbridge’s offer was not taken as sufficient to address the community’s concerns about the oil spill. Ask students to hypothesize about the reasons for the community’s dissatisfaction, and to brainstorm about actions the company might have taken to satisfy these concerns. If they were Enbridge managers faced with the task of recommending such actions to the company’s board, how would they make their case?

1. **Application of Ethical Decision-Making:** Consider two approaches to the above Enbridge scenario in the Decision Point, “Ethics After an Oil Spill.”
2. The ***more social-scientific approach*** common in management or business administration classes would examine the decision by exploring the factors that led to one decision rather than another or by asking why the manager acted in the way that he did?
3. A ***second approach*** to Enbridge, steps back from the facts of the situation to ask what *should* the manager do, what *rights and responsibilities* are involved? What *good* will come from this situation? Is Enbridge being *fair, just, virtuous, kind, loyal, trustworthy*?
4. This ***normative approach to business*** is at the center of business ethics. Ethical decision making involves the basic categories, concepts, and language of ethics: *shoulds, oughts, rights and responsibilities, goodness, fairness, justice, virtue, kindness, loyalty, trustworthiness, and honesty*.

**\*Chapter Objective 4 Addressed Below\***

1. **Ethics as Normative:** To say that ethics is a ***normative*** discipline is to say that it deals with norms, those standards of appropriate and proper (or “normal”) behavior.
2. Norms establish the guidelines or standards for determining what we should do, how we should act, what type of person we should be.
3. Norms appeal to certain values that would be promoted or attained by acting in a certain way.
4. Normative disciplines presuppose some underlying values.
5. **What are Values?** We can think of ***values*** as the underlying beliefs that incline us to act or to deicide one way rather than another.
6. A company’s ***core values*** are those beliefs and principles that provide the ultimate guide to its decision-making.
7. We can recognize many different types of values: financial, religious, legal, historical, nutritional, political, scientific, and aesthetic. Individuals can have their own personal values, and importantly, institutions also have values.
8. Talk of a corporation’s ***culture*** is a way of saying that a corporation has a set of identifiable values that establish the expectations for what is “normal” within that firm.
9. These norms guide employees, implicitly more often than not, to behave in ways that the firm values and finds worthy.
10. One important implication of this guidance, of course, is that an individual’s or a corporation’s set of values may lead to either ethical or unethical result. The corporate culture at Enron, for example, seems to have been committed to pushing the envelope of legality as far as possible in order to get away with as much as possible in pursuit of as much money as possible.
11. One way to distinguish these various types of values is in terms of the ***ends*** they serve**.**
12. **Ethics Values versus Other Values:** How are ethical values to be distinguished from these other types of values?
13. ***Ethical values serve the ends of human well-being***. Acts and decisions that seek to promote human welfare are acts and decisions based on ethical values. Controversy may arise when we try to specify more precisely that which is involved in human well-being.
14. The well-being promoted by ethical values is not a personal and selfish well-being. After all, the Enron and Madoff scandals resulted from many individuals seeking to promote their own well-being.
15. Ethics requires that the promotion of human well-being be done impartially. Ethical values are those beliefs and principles that impartially promote human well-being.
16. **Ethics and the Law**

**\*Chapter Objective 5 Addressed Below\***

1. The **law provides an important guide** to ethical decision-making. Legal norms and ethical norms are not identical nor do they always agree. However, when new quandaries arise, one must be able to rely on ethics since the law might not yet – or might never – provide a solution.
2. Some ethical requirements, such as treating one’s employees with respect, are not legally required though they may be ethically warranted.
3. Conversely, some actions that may be legally permitted, such as firing an employee for no reason, would fail many ethical standards.
4. **Law as Social Responsibility:** A commonly accepted view, perhaps more common prior to the scandals of recent years than after, holds that a business fulfills its social responsibility simply by obeying the law.
5. From this perspective, an ethically responsible business decision is merely one that obeys the law; there is no responsibility to do anything further.
6. Individual businesses may decide to go beyond the legal minimum, but these choices are voluntary and a matter of corporate philanthropy and charity.
7. **Ethics Programs and Officers**. Over the last decade, many corporations have established ethics programs and have hired ethics officers who are charged with managing corporate ethics programs.
8. Ethics officers do a great deal of good and effective work, but it is fair to say that much of their work focuses on compliance issues.
9. The Sarbanes-Oxley Act created a dramatic and vast new layer of legal compliance issues.
10. **Compliance?** Is compliance with the law all that is required to behave ethically?

**\*Reference: “Reality Check - *Ethics in the Corporate World”*\***

1. Holding that obedience to the law is sufficient to fulfill one’s ethical duties begs the question of whether or not the law itself is ethical. One’s ethical responsibility may run counter to the law.
2. This question can have significant implications in a global economy in which businesses operate in countries with legal systems different from those of their home country. Societies that value ***individual freedom*** will be reluctant to legally require more than just an ethical minimum**.**
3. You do not forgo your ethical responsibilities based on obedience to the law.
4. If business restricts its ethical responsibilities to obedience to the law, it should not be surprised to find a new wave of government regulations that require what were formerly voluntary actions.
5. The perspective that compliance is enough relies on a misleading belief that law is clear-cut and unambiguous. This rule model of law is very common, but not quite accurate. If the law was clear and unambiguous there would not be much a role for lawyers and courts.

**\*Reference: “Reality Check - Transparency International: Perceptions of Foreign Bribery by Sector”\***

**\*Chapter Objective 6 Addressed Below\***

1. ***Example*:** Consider one law that has significant impact of business decision making: the Americans with Disability Act. This law requires employers to make reasonable accommodations for employees with disabilities. But what counts as a disability and what counts as a reasonable accommodation? Over the years, claims have been made that relevant disabilities include obesity, depression, dyslexia, arthritis, hearing loss, high blood pressure, facial scars, and the fear of heights. Whether or not such conditions are covered under the law will depend on a number of factors, including how severe the illness is and how it affects the employee’s ability to work. Imagine that you are a corporate human resource manager and an employee asks that you make reasonable accommodations for her allergy. How would you decide if allergies and hay-fever are disabilities under the Americans with Disabilities Act?
2. **Rules versus case law:** The law offers general rules that get specified in case law. Most of the laws that concern business are based on past cases that establish legal precedents. There is no unambiguous answer to the conscientious business manager who wishes simply to obey the law.
3. Some theories of corporate social responsibility suggest that if a corporate manager is told that she has a responsibility to maximize profits within the law, a competent manager will go to her corporate attorneys and tax accountants to ask what the law allows. Most cases of corporate scandal mentioned at the start of the chapter involved attorneys and accountants who advised their clients that what they were doing could be defended in court.
4. It would seem a manager has a responsibility to “push the envelope” of legality in pursuit of profits. Because the law is ambiguous, because in many cases it simply is not clear what the law requires, business managers will often face decisions that will rely on their ethical judgments.
5. **Responsible decision-making** requires that we *do* step back to reflect upon and consciously choose the values by which we make decisions.

**\*\* Teaching Note**: This would be an appropriate point to delve more deeply into the contrast between ethics and law. Take any well-known business law case, describe the factual background, and then ask students to take the point of view of those who argue that the social responsibility of business is to maximize profit within the law. From that perspective, before the outcome of the legal case is known, what ought the business manager do? Then have students read the judicial decision and examine whether they could have known what the law required before the decisions was made.

**\*Chapter Objective 7 Addressed Below\***

1. **Ethics as Practical Reason:**
2. **Practical Reason:** We have described ethics as ***practical*** and ***normative***, having to do with our actions, choices, decisions and ***reasoning*** about how we should act.
3. Ethics is therefore a vital element of ***practical reasoning*** and is distinguished from ***theoretical reasoning***.
4. ***Theoretical reasoning*** is the pursuit of truth, which is the highest standard for what we should believe.

1. **The Scientific Method.** According to this tradition, science is the great arbiter of truth. The scientific method can be thought of as the answer to the fundamental questions of theoretical reason: What should we believe?
2. The question arises, is there a comparable methodology or procedure for deciding what we should do and how we should act?
3. There are guidelines that can provide direction and criteria for decisions that are more or less reasonable and responsible. Ethical theories are patterns of thinking, or methodologies, to help us decide what to do.
4. Practical reasonis reasoning about what we should do. It involves walking through a series of steps in making a decision about what to do, in order to make a reasonable decision.

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| **Discussion of Opening Decision Point**  **Eating Less Meat: No Easy Answers**  The result of Sodexo’s Meatless Monday experiment turned out to be somewhat less positive than anticipated. A third of Sodexo’s participating cafeterias saw a drop in sales, with some seeing a drop in customer satisfaction as well. On the other hand, sales of vegetables increased, and sales of meat went down. Sodexo now faces a subtle kind of ethical challenge. The company is not facing a scandal, but considering very basic questions of how to balance social values against profits that companies of all sizes confront every day. This kind of challenge is far more common than headline-making crises. As social values evolve, so must businesses. Any company that finds itself too far out of step with the values of its customers faces serious trouble, but by failing to change with the times, a company risks becoming obsolete. While “Meatless Mondays” resulted in a reduction in revenue, companies that make early attempts to reduce the amount of meat they sell may enjoy a significant competitive advantage if enough customers shift their eating habits in ways that make Meatless Mondays a hit. |

End of Chapter Questions, Projects, and Exercises

1. Other than ethical values, what values might a business manager use in reaching decisions? Are there classes in your college curriculum, other than ethics, which advise you about proper and correct ways to act and decide?

**Challenge the students to integrate knowledge and material from their other courses. In particular, challenge them to articulate any behavioral norms that are implicit in such classes as finance, accounting, economics. Ask students to explain how the norms embedded in these classes differ from ethical norms.**

1. Why might legal rules be insufficient for fulfilling one’s ethical responsibilities? Can you think of cases in which a businessperson has done something legally right, but ethically wrong? What about the opposite – are there situations in which a businessperson might have acted in a way that was legally wrong but ethically right?

**Direct students to discussion about ethics and the law. This question can also be used to draw parallels between legal and ethical distinctions between what is “required/obligatory” and what is “permitted.”**

1. What might be some benefits and costs of acting unethically in business? Distinguish between benefits and harms to the individual and benefits and harms to the firm.

**Students may need to be challenged to move beyond economic and financial benefits and harms.**

1. Review the distinction between personal morality and matters of social ethics. Can you think of cases in which some decisions would be valuable as a matter of social policy, but bad as a matter of personal ethics? Something good as a matter of personal ethics and bad as a matter of social policy?

**Lead a class discussion about the nature of personal morality and matters of social ethics based on relevant current events or leaders. Again, consider the hypothetical case of the HR manager mentioned at II.d.5 as a means to highlight this distinction. Other cases might involve individuals who are charged with certain professional responsibilities—lawyers, auditors, physicians.**

1. As described in this chapter, the Americans with Disabilities Act requires firms to make reasonable accommodations for employees with disabilities. Consider such conditions as obesity, depression, dyslexia, arthritis, hearing loss, high blood pressure, facial scars, and the fear of heights. Imagine that you are a business manager and an employee comes to you asking that accommodations be made for these conditions. Under what circumstances might these conditions be serious enough impairments to deserve legal protection under the ADA? What factors would you consider in answering this question? After making these decisions, reflect on whether your decision was more a legal or ethical decision.

**Refer students to the relevant section in the chapter on the Americans with Disabilities Act. In order for circumstances such as obesity, depression, dyslexia, arthritis, hearing loss, high blood pressure, facial scars, and the fear of heights to be serious enough impairments to deserve legal protection under the ADA, the impairment must substantially limit one or more major life activities. When the law is ambiguous, as is always so in case law, any decision will be made in part on the basis of personal values. Such examples help counter the misleading view that many students adopt that the law is a set of rules that provide unambiguous guidance. In turn, this helps instructors move students beyond the perspective that all one needs do is “obey the law.”**

1. Do an Internet search for recent news stories about oil spills. Do any of those stories report behaviors that seem especially wise or unwise on the part of the oil companies involved? Do you think that controversies over big pipeline projects like the Keystone Pipeline alter how people evaluate the ethics of oil-spill cleanups?

**Students can find information about the risks Enbridge’s pipelines still pose in this news article:**

**“Great Lakes at Risk of Major Oil spill, Report Warns” *Bloomberg Businessweek,* October 18, 2012,** [**http://www.businessweek.com/news/2012-10-18/great-lakes-at-risk-of-major-oil-spill-report-warns**](http://www.businessweek.com/news/2012-10-18/great-lakes-at-risk-of-major-oil-spill-report-warns)

**For an overview of some issues raised by advocates and critics of the Keystone Pipeline, students can be directed to the following resources:**

1. **“Where’s the Noise? Keystone XL: The Forgotten Controversy,” *Columbia Business Law Review*, September 26, 2012,** [**http://cblr.columbia.edu/archives/12292**](http://cblr.columbia.edu/archives/12292)
2. **“Why the $7 Billion Keystone XL Pipeline is the Most Controversial Business Venture in America,” *Business Insider*, November 8, 2011,** [**http://www.businessinsider.com/keystone-xl-project-controversy-2011-11?op=1**](http://www.businessinsider.com/keystone-xl-project-controversy-2011-11?op=1)
3. Construct a list of all the people who were adversely affected by Bernie Madoff’s Ponzi scheme. Who, among these people, would you say had their rights violated? What responsibilities, if any, did Madoff have to each of these constituencies?

**The concept of “stakeholders” will be introduced in chapters 2 and 3; therefore this question is to help students get started thinking about the nature of “stakeholders.” Ask students to list the stakeholders in the Madoff situation. An interesting side discussion can be generated by asking students to describe how all of these stakeholders were harmed, and whether or not they view the losses faced by some individuals or organizations (e.g., The Elie Wiezel Foundation for Humanity) differently than those faced by others (e.g., hedge funds or individual celebrities).**

1. What difference, if any, exists between ethical reasons and reasons of self-interest? If a business performs a socially beneficial act in order to receive good publicity, or if it creates an ethical culture as a business strategy, has the business acted in a less than ethically praiseworthy way?

**This question introduces the concepts of corporate culture and social responsibility, which will be discussed in chapters 4 and 5.**

9. During the recession of 2008-2009, many reputable companies suffered bankruptcies while others struggled to survive. Of those that did remain, some opted to reduce the size of their work forces significantly. In a business environment during those times, consider a company that has been doing fairly well, posting profits every quarter and showing a sustainable growth expectation for the future. However, the general ill ease in the market has caused the company’s stock price to fall. In response to this problem, the CEO decides to layoff a fraction of his employees, hoping to cut costs and to improve the bottom line. This action raises investor confidence; consequently, the stock price goes up. What is your impression of the CEO’s decision? Was there any kind of ethical lapse in laying off the employees, or was it a practical decision necessary for the survival of the company?

**Students should list and consider each of the stakeholders impacted by the company’s decision and analyze the business decision in the context of the business’ social responsibilities.**

10. Every year, Ethisphere Magazine publishes a list of the world's most ethical companies. Go to their website; find and evaluate their rating methodology and criteria; and engage in an assessment (i.e. provide suggestions for any modifications you might make or a more or less comprehensive list, and so on).

[**http://ethisphere.com/wme**](http://ethisphere.com/wme)/

**Chapter 1 Readings**

**Summaries and Main Points**

**Reading 1-1**

**“Value Shift” by Lynn Sharp Paine**

**Main Points**

* Ethics and values today are viewed by companies throughout the world as important corporate concerns.
* Since the 1990’s, ethics guidelines and training have become widespread, corporate boards have become more active in setting their companies’ ethical standards, and membership in the Ethics Officer Association have grown dramatically.
* Firms have begun to track and report publicly on their performance in areas such as diversity, quality, customer service, health and safety, legal compliance, the environment, corporate culture, cross-cultural management, sexual harassment, work-family balance, corporate citizenship, and human rights.
* A company’s decision to turn to values is affected by their size, their developmental stage, and societal factors, such as the law or media.
* Companies that are large and well-established typically turn to values to protect their reputation, while smaller, start-up companies talk about building a reputation or establishing a brand.
* Overall, executives explanations for their interest in values fall into five main areas: 1) reasons relating to risk management, 2) reasons relating to organizational functioning, 3) reasons relating to market positioning, 4) reasons relating to civic positioning, and 5) reasons relating to the simple inherent worth of ethical behavior. Executives in the final category believe it is better for companies to be honest, responsible, trustworthy and good citizens.

**Summary**

“Value Shift” addresses the change in perception of business ethics over the past few decades. In the early 1980’s, business ethics was practically seen as a joke. For example, bookstores offered volumes with titles like *The Complete Book of Wall Street Ethics* consisting entirely of blank pages. Today, attitudes have changed dramatically and ethics is viewed as an important corporate concern. Ethics may not be universally practiced or embraced, as evidenced by the scandals of 2001 and 2002, but there is certainly an increased interest in values among corporations, which has manifested itself in various ways throughout the business world. Many firms have introduced ethics programs, values initiatives and cultural change programs, some have created corporate ethics offices or board-level ethics committees, and others have revised their company’s business principles, corporate values, or codes of conduct to reflect the emphasis on ethics and values. Companies have even begun to track and report publicly on their performance in these areas. Throughout the global business world, firms are recognizing that good ethics and strong values can improve companies and it is in their best interest to promote ethical behavior and policies. Some firms use ethics and values as a way to protect their company’s reputation or brand, while others use them to establish and build their brand. Some firms simply want to do what is ethical because it is the right thing to do, and there is inherent value in doing what is good.

**Reading 1-2**

**“Review of Debra Satz’s *Why Some Things Should Not Be For Sale*” by Joseph Heath**

**Main Points**

* One of the major points of resistance facing proponents of unrestricted markets is repugnance at the thought of certain goods and services being subject to commercial exchange.
* Michael Walzer argued that moral repugnance provides a rationale for the welfare state: Certain goods and services are provided by the public sector because it would be unethical for them to be provided by the private sector.
* Although she denies it, Debra Satz’s recent book fits within this tradition.
* According to Satz, the moral intuitions at play in the domain of prostitution, reproduction, and transplantation are the same intuitions that justify the role of the public sector in the provision of health care, education, and old-age security.
* Walzer argued that different goods belong to different socially defined “spheres,” each with its own distributive logic. Trying to distribute votes, health care or love using money constitutes an illegitimate boundary-crossing. However, a free society can be marked by disagreement over the values and principles of distribution in each sphere.
* Serious doubts have been raised about whether the exchange of goods is repugnant, or the background inequality that underlies certain exchanges.
* There tends not to be a strong reaction to a barter exchange between kidney donors so that each may find a compatible kidney for a loved one.
* The difference between this exchange and using cash to purchase a kidney is that cash allows people to take potentially undeserved advantages they have acquired in other domains and transfer them to the domain of kidney acquisition. This looks like an egalitarian intuition.
* There is a familiar line of reasoning in welfare economics showing that, if inequality is the problem, then the best way to address it is by making adjustments on the income side, not by interfering with particular markets.
* This can lead to a view that Satz refers to as “general egalitarianism,” where a case for restricting a particular market will be due to:
  + Efficiency concerns arising from market imperfections.
  + Paternalistic concern that improving the distribution of income will not result in the right sort of improvements in the final outcome.
* Satz’s position is to embrace a fully liberal perspective while stopping somewhere short of general egalitarianism.
* Starting with a generous interpretation of the egalitarian and efficiency principles, she identifies characteristics that make a market “noxious.”
* All of Satz’s characteristics could be construed as problematic from the general egalitarian view as well. Markets should be prohibited on the basis of general principles, which also satisfy a neutrality constraint.
* While the general egalitarian view might be able to accommodate Satz’s concerns, she points out that the standard version of that position interprets both the efficiency and equality principle quite narrowly.
* The most important difference between Satz’s view and that of the general egalitarian stems from the way she justifies market restrictions on individual choice. She claims that the state must provide for certain needs in-kind because it must achieve a certain outcome, regardless of whether the individuals in question value that outcome. Unfortunately, she says little about where this obligation comes from.
* Satz makes the observation that in order to justify prohibition of a particular exchange, it is not adequate simply to come up with a reason why it should be banned. One must also show that this would not result in the prohibition of all sorts of other markets that no one has any particular problem with.
* Satz appeals to the “Titanic Problem” where passengers in 3rd class were expected to go down with the ship, because they had paid for less expensive tickets.
* This is a fictitious account, because the actual differential in survival rates was among men as opposed to women and children. Satz claims that the selling of tickets with differential access to lifeboats is impermissible. But the fact that we routinely pass over arrangements in which men are exposed to much greater risk than women suggests that there is no general norm requiring equal safety in our society.
* A likely explanation is that we find male victims of class discrimination more sympathetic than male victims of sex discrimination. If this is true, then by Satz’s argument the reaction to the fictitious Titanic scenario may just be a type of repugnance that we need to get over.

**Summary**

Joseph Heath analyzes Debra Satz’s book, which examines how cultural mores constrain markets, and how to justify moral involvement in the free market. Heath finds that Satz follows Michael Walzer’s justification of the welfare state by the repugnance created by the market in certain goods and services. Walzer believed that society placed these goods and services in spheres separate from the conventional market, so to exchange them for money was illegitimate. Looking at some examples of these spheres shows that it could be concerns with the underlying inequality of the marketplaces that produces the reaction against trades in objectionable areas. Satz refers to another system, general egalitarianism, in which restrictions are based on efficiency principles or paternalistic concerns. While she seeks to avoid embracing these egalitarian principles, many of her concerns could be construed as problematic in terms of those principles as well. Satz wants to expand the traditional understanding of equality. She views this as a concern about what the state is obligated to do, not as a question of what the recipient needs. Another issue is that before prohibiting a certain market, one must be sure that it does not interfere with non-objectionable markets. She uses a fictitious example of 3rd class passengers on the Titanic being denied seats on the lifeboats to illustrate societal outrage at inequality. This is incorrect, because the inequality was due to there being more men in 3rd class, and men in general were denied access to the lifeboats in favor of women and children. The fact that people were outraged by 1st class passengers being given priority, but unconcerned by women and children receiving preference, reveals that Satz’ argument against intervention in certain areas should apply here as well.

**Reading 1-3**

**“The MBA Oath”**

**Main Points**

* MBAs must recognize that while business leaders can work to create value that no single individual can create alone, they can affect the well-being of individuals inside and outside of their enterprise.
* The MBA graduate pledges to:
  + Manage with loyalty and care
  + Refrain from advancing personal interests at the expense of others
  + Uphold the law and contracts he/she enters into
  + Refrain from unethical activities
  + Protect human rights and oppose discrimination and exploitation
  + Protect the rights of future generations
  + Make accurate and honest representations
  + Develop himself/herself and others and help the management profession to continue to advance.

**Summary**

MBA Graduates are asked to recognize that they have the power to affect others’ lives, and they must take positive actions while they pursue their goals as management professionals.

**Reading 1-4**

**“The Oath Demands a Commitment to Bad Corporate Governance” by Theo Vermaelen**

**Main Points**

* The MBA oath is not a good idea because it is inconsistent with fiduciary duties, it expresses a misplaced response to the financial crisis, and pledges should not be an instrument to guide people’s behavior.
* Board members and managers often have a duty to maximize shareholders’ wealth. Unless a business case can be made that shareholder value is increased by taking care of externalities, such as environmental consequences, the government should deal with the social consequences of managers’ business decisions.
* The oath assumes that the financial crisis was caused by unethical MBAs. New research shows that the largest losses were to banks where the CEO had a large stake, and that bankers owned large amounts of the most mispriced mortgage securities.
* Bankers may have made mistakes, but this was because they believed ratings agencies, which made forecasts based on historical data. Forecasting and modeling is a tricky business. The solution is more finance education and better forecasting and risk management models.
* The idea that the next crisis will be avoided by an oath seems excessively naïve.
* The MBA oath pushes the stakeholder value maximization idea to include the entire world as a stakeholder. This would erode the value of shareholder property rights and prevent the development of capital markets.
* MBA students should instead take an oath pledging only to maximize the wealth of the shareholders, unless the shareholders instruct them to do something else.

**Summary**

Vermaelen believes that the MBA pledge is misguided. The maximization of shareholder value should be the only goal of a manager, unless the externalities produced by a corporation’s behavior threaten the value of the shareholders’ wealth. Rather than being the villains of the financial crisis, MBAs suffered as much or more than the general public. The crisis was caused by poor forecasting by ratings agencies, so the solution is better forecasting models, along with more finance education. Signing an oath is not a credible commitment; if Bernie Madoff had signed the oath, he would not have acted differently. If anything, MBAs must focus on one thing: shareholder-friendly corporate governance.

**Reading 1-5**

**“The MBA Oath Helps Remind Graduates of Their Ethical Obligations” by Chris MacDonald**

**Main Points**

* The MBA oath has been taken by students at more than 250 schools around the world. While it is neither revolutionary nor perfect, it is a good thing.
* There are three kinds of critics of the oath – those who say it is too demanding, those who say it is not demanding enough, and those who say it shouldn’t be necessary.
* Those who say it does too much believe it is a radical departure from the tenets of economic theory, but they are being too literal. Nothing in the oath urges MBAs to turn their backs on shareholders.
* Those who say that the oath requires too little object to the lack of actual commitment to social and economic justice, as well as the lack of any enforcement. They underestimate the impact of getting ethical concerns onto business executives’ agenda. They also underestimate the depth of debate over the way MBAs ought to put their values into action when at work.
* Those who say that the oath should not be necessary don’t feel that people who have graduated from an MBA program need to be told how to be ethical. The point of an oath such as this is not to remind the MBA of his or her ethical obligations, but to keep those ethical obligations firmly in mind.
* The oath is not perfect. It says little about how MBAs ought to handle conflicts that will arise, and is painfully vague.
* The main problem with the oath is a problem with people’s expectations. No oath will solve the problems that beset the world of business, but it might turn out to play a role in keeping the discussion alive.

**APPENDIX A**

**Take a “Values Walk”**

A “values walk” is a classroom exercise that can help students begin to articulate and justify their own ethical decisions. While this exercise works best with smaller groups, it can be demonstrated in a large class by using a subgroup (groups as large as 20 can be used).

Begin by attaching an identifying label—Agree, Strongly Agree, Disagree, Strongly Disagree—on the four walls of a room. Then describe a simple ethical decision or statement. For example, “it is never justified to torture prisoners,” or “we should increase taxes on wealthy individuals.” Ask students to walk to the side of the room that represents their own response. Announce that they are free to move to another side at any time if they change their mind.

The instructor can then begin the discussion by asking students at opposing sides of the room to explain their stance. Students also can be asked to explain why they are at “strongly” rather than not. Individuals that stand out (and alone) are good places to begin the questioning. After a few students have explained their views, it is common to see several students begin to change their stance and move. These students then become good candidates to call on –Why did you change your opinion?

The instructor can then add further information to the original case: “torture in order to obtain information to prevent a terrorist attack,” or “increased taxes to pay for education.” In light of such further information, why, or why not, change your point of view?

In larger classes in which not every student walks, observing students can be assigned roles: a recorder to list the different reasons offered or to note which new bit of information changed most minds; a “jury” to evaluate and judge the best rationales.

This values walk can be used later in the semester and the decision making model introduced in Chapters 1 and 2 can be used more explicitly in guiding the walk. The values walk is helpful in making clear the relevance of facts in making decisions, especially when it becomes clear that only small change in the description results in many students walking to a new position. The values walk can also highlight the fact that ethical disputes can often hinge on misunderstandings or ambiguous information or wording. (“It depends on what you mean by torture.” Or “How imminent is the terrorist attack?”).