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Today, the media are reporting a never-ending litany of stories about corruption, conflicts of interest, insider trading, environmental pollution, deadly hazards in the workplace, sexual harassment, overbilling on government contracts, check kiting, and banking, savings and loan, and consumer frauds. The list goes on, ad infinitum. Concurrently, there has been a revival of interest in business ethics. Many basic questions are raised. How does one determine what constitutes right conduct in business? For example, is it ever acceptable to lie in a negotiation? What is the trend in business ethics? Is behavior in the business world worse than it was 10 years ago? Are there general principles of business ethics that apply to all forms of commercial activity? This chapter will shed light on these timely and important questions.

Ethics and Law

The relationship between ethics and law needs to be clarified, particularly prior to a discussion of ethics in a law book. Ethics is a discipline dealing with what is right and wrong in human conduct. As such, it may be viewed as a set of principles of conduct governing an individual or a profession.

In Western thought there are at least three widely accepted approaches to determining what is ethical: (1) consequential or utilitarian approaches, (2) deontological or duty-based approaches, of which Kantian ethics is an example, and (3) contractarian approaches with emphasis on consent. In addition, there are concepts such as stakeholders and virtue ethics which help us understand business ethics.

Some managers appear to believe that obeying the law is sufficient to be considered ethical. Although there may be an ethical obligation to obey most laws, it is incorrect to think that all ethical responsibilities can be satisfied by meticulous law compliance. For one thing, some laws are unethical. Slavery was once the law of the United States, yet a very strong case can be made that slavery is unethical. Secondly, ethical obligations often go beyond the law. It may be unethical, yet legal, to lie or to dishonor a promise. The law cannot, and should not, be used to ensure that every person lives up to every single ethical obligation.

In many cases it can be argued that there is an ethical obligation to obey the law. This obligation extends to acting in compliance with the spirit of the law, and not acting to seek loopholes or defeat the obvious purpose of the law. There appears to be a growing trend toward looking to

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"marketplace morality" as a means of defining what certain legal terms mean. Many statutes or common law principles contain terms or depend on concepts such as "good faith," "bad faith," "unfair," and "reckless disregard." The meaning of these terms in the marketplace helps to define their legal scope. In addition, juries may be influenced by whether the actions in a particular lawsuit appear consistent with commonplace conceptions of morality.

Ethics in Business

Ethics involves formal consideration of the interests of others in deciding how to behave or act. All businesses impact outsiders in their operations. Consider the decision by an owner to close a small glass-blowing plant that has been vital to the well-being of a small rural community and that has always been reasonably profitable. What questions must be answered in order to determine whether the plant-closing decision is ethical? Does motive make a difference? Should the focus be solely on the outcome from the viewpoint of the decision maker? Do local attitudes and customs primarily determine the ethical course of action? Is every case unique, or are there certain fundamental principles that apply regardless of the situation?

These basic questions have been the subject of much debate and formal analysis, particularly among philosophers. However, before exploring how they might be answered, we must first deal with the fundamental issue of whether ethical analysis is even possible in business. We will first discuss arguments, based upon relativism and egoism, that ethical analysis is not possible or legitimate in the business world, then proceed to a discussion of some of the fundamental Western theories of ethics, and finally present some principles of professional business ethics.

Relativism and Egoism

Relativism

Is ethical analysis dependent upon the social-economic context in which it occurs? The argument of relativism lies at the heart of the current debates about the propriety of paying bribes in foreign markets, setting lower standards for plant safety overseas, or discriminating on the basis of

sex in Muslim countries. Relativists who defend such actions argue that local custom makes it mandatory that international firms follow the local rules. When in Rome, one *must* do what the Romans do. Paying bribes is justified by arguing that (1) they are required by local custom and it is arrogance to impose American values upon other societies, (2) they are necessary to compete against foreign firms willing to pay bribes to get business, and (3) whatever harm results will affect only the foreign country (which after all has permitted bribery to flourish).

Similar explanations are given by those who follow different safety standards at foreign locations or who operate in Saudi Arabia. Is there anything wrong with following local practice? Certainly, there are circumstances in which people would defer to local preferences. Many businesspeople would not drink alcohol at a Muslim gathering, tip in an Australian restaurant, or insist on wearing shoes in a Buddhist temple.

The issue is of a different magnitude when it involves situations such as plant safety in less-developed countries. The local government may clearly prefer to have lower safety standards as a way to attract foreign investment. In Bhopal, the Union Carbide plant which had a gas explosion, killing several thousand people, was producing an agricultural product important to India and other developing countries with chronic food shortages. The plant was partly owned by India, and therefore could also generate foreign trade earnings that are critical to the development of the Indian economy.

The fact that one might defer to local custom does not mean that local custom can *always* determine what constitutes right conduct. No one would accept bizarre local practices, such as requiring the human sacrifice of a member of the firm in order to get a license to do business, as ethical. Relativism as an ethical theory would reduce ethical analysis to nothing more than conducting a proper survey of local customs and laws.

The counterpoint to relativism is the view that there are certain universal principles that transcend local custom or practice. These universal principles may be based upon fundamental human rights such as life, liberty, and physical well-being, or upon practices that improve human welfare. Under this view, a society as a whole can be considered to be immoral if its generally accepted practices violate universal norms.

If one accepts the notion of universal principles, then the relativism argument cannot be used to dispense with a consideration of ethical issues in business. A decision to practice apartheid in South Africa or to pay a bribe in Indonesia must be justified on grounds other than local practice.

Egoism

Egoism is acting solely to maximize one's self-interest. The egoist considers the interests of others solely to determine how they affect his or her own self-interest. There are two types of egoism which serve as counterpoints to formal ethical theory. The first, **psychological egoism**, assumes that humans are incapable of genuinely considering the interests of others. Seemingly altruistic acts such as charity and caring for the sick and disabled are dismissed as actually based upon selfish motivations. Charitable persons are considered to be getting kicks from a power trip or by having others become dependent upon them. The concept of psychological egoism is contrary to the basic assumptions about humankind that are found in the major religions and is counterintuitive. If psychological egoism is accepted as accurately descriptive of human nature, then there would be no point to the study of ethics.

Ethical egoism takes the normative position that everyone has the right to act in his or her own self-interest. This form has some serious defenders in the business world, who not only advocate it as a human right, but who also see it as an extension of Adam Smith's invisible hand. They claim that society is best off when people act as they selfishly desire. It is the responsibility of government to impose any necessary limits on their behavior. The "ethical" egoist will act to maximize self-interest subject only to compliance with the law. In a contract negotiation, if it is possible to lie, be undetected, and benefit, the ethical egoist will do so. The egoist would breach a contract whenever the damages to be paid are less than the benefit of the breach, so long as breaching would not produce additional offsetting costs such as the loss of reputation. Under this view the plant owner would only consider his or her own interests in deciding whether to close the plant. Society would have the responsibility for providing any necessary social safety net.

Ultimately, egoism as a theory of ethics can be criticized on the basis of its impact on society. A

society made up of ethical egoists would be dominated by opportunistic behavior. Opportunistic behavior may include theft, fraud, double-dealing, treachery, and other similar actions. Negotiators anticipating opportunistic behavior enter into more costly contracts, while actual opportunism directly reduces economic efficiency. One is likely to be much more careful when contracting with someone who is considered untrustworthy, and the extra care will translate into increased costs, including greater use of elaborate contracts, monitoring, and extensive background data gathering. When these costs occur differentially among firms or industries, they may result in the misallocation of resources. Because egoism legitimizes opportunism and may sanction actions harming other human beings, it is not satisfying as an ethical theory. The argument that egoism is a basic human right is subject to challenge on grounds that it is incompatible with human nature and that most people would not choose to recognize such a right on a universal basis.

Rejection of egoism does not require adoption of a principle of ethical altruism whereby it is considered inappropriate for an individual to consider his or her own interest in evaluating the morality of a proposed course of action. That, of course, is not the case. The standard methods of ethical analysis that are relevant to business incorporate the interest of the actor in the ultimate consideration of the nature or impact of the proposed action. The actor is a member of society, and as such his or her interests do count.

Theories and Concepts of Moral Responsibility

Three theories of moral responsibility particularly relevant to business practice have been propounded by Western moral philosophers: (1) deontology, (2) utilitarianism, and (3) social contract. **Deontological theory** is founded upon concepts of duty which serve as guidelines to moral behavior. In contrast, **utilitarian theory** is outcome-oriented. **Social contract** is concerned with specific procedures or principles for allocating wealth, rights and responsibilities among the members of society.

A social contract is an implied, informal understanding concerning norms of behavior that will

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be followed in certain contexts. It has been suggested, for example, by Donaldson¹ that there is an implied social contract between society and the business organizations that operate within the society. As part of the implied contract, society promises to provide an environment conducive for business operations, while in turn business agrees to operate by the rules established by society.

In addition to the formal ethical theories, various concepts or ideas are associated with business ethics. The best known of these is the stakeholder concept. The stakeholder concept requires that business firms consider the interests of stakeholders in making decisions. Stakeholders include all of those who might be affected in a significant way by the decisions of the firm. Thus, a list of stakeholders for a major corporation would include creditors, residents living near a plant, local governments, unions, distributors, and so on. Under a stakeholder analysis, ethical firms must identify the interests of significant stakeholders and then incorporate those interests into the ultimate decision.

Another idea associated with business ethics is that of virtue. Often based upon Aristotle, the key idea is that individuals are self-fulfilled by practicing key virtues in all dimensions of life, including their jobs. In the words of Robert Solomon:²

The bottom line of the Aristotelian approach to business ethics is that we have to get away from "bottom line" thinking and conceive of business as an essential part of the good life, living well, getting along with others, having a sense of self-respect, and being part of something one can be proud of. Aristotle argued that what I have called "abstract greed" ("the profit motive") was a kind of pathology, a defect of character, an "unnatural" and antisocial vice.

Duty-Based Ethics

Immanuel Kant (1724–1804) was a profound and influential duty-based philosopher. Kant identified several general guiding principles for moral behavior based upon the fundamental nature of human beings. Kant formulated several versions of a categorical imperative of duty—an obligation existing as an affirmative duty in all circumstances and contexts.

In his most famous statement of the categorical imperative, Kant identified a duty requiring each individual to act in such a manner that the individual could will that the action be a universal rule followed by all. Individuals must refrain from any action that would be problematic if everyone were to do it. One cannot make an unfair exception for himself or herself. Cutting into waiting lines or putting slugs into honor system newspaper vending machines are immoral acts. One cannot expect others to wait in line or pay fares and then assert that one has a special privilege to violate the principle.

In another characterization of the categorical imperative, Kant cautioned that it is immoral to treat other human beings merely as means. The treatment of human beings as merely means is the equivalent of treating people as objects, a denial of their basic humanity. Intention is always important in judging whether an individual has acted ethically.

Kant's principles provide general guidance, but they need to be systematically applied to a business context. In that context, the disagreements are likely to begin. Is there an absolute duty not to lie in a business negotiation? Some would dispute such a concept of duty. How, then, are duties to be derived?

To begin with, it could be postulated that there are certain basic *general* duties such as treating others on a nondiscriminatory basis, acting in good faith, dealing with subordinates through fair procedures, avoiding physical harm to others, eschewing conflicts of interest, and obeying the law that apply to everyone. Such fundamental duties form the core of business ethics and are applicable to all businesspeople in all contexts.

These general duties are supplemented by specific duties that apply to certain individuals in certain contexts. Specific duties could arise from personal promises, professional codes of behavior, or role obligations. The following are examples of specific duties:

- A corporate lawyer has a duty to keep confidential the proprietary information of his or her employer.
- A real estate agent representing a seller must not purchase the property for his or her own account without notifying the seller.

- A corporate manager must not compete secretly with his or her own firm.
- An automobile engineer with responsibility for design safety must hold paramount the physical well-being of users.
- An arbitrator must not delegate decision making to someone else without the consent of the disputing parties.
- An accountant cannot agree to a contingent fee arrangement dependent upon a particular finding or result.
- Bank employees should not reveal information relating to their customers to unauthorized persons, nor should confidential information of clients be used to benefit the bank financially.

For a given individual, then, it may be possible to come up with a list of specific ethical duties that should be observed. But the task does not end at that point. One of the most difficult problems for duty-based ethical theorists arises when duties come into conflict. For example, a corporate lawyer has an obligation to maintain the confidentiality of client confidences. But suppose that the lawyer discovers a corporate plan to steal millions through computer fraud. The lawyer is aware of the implications of the plan and is certain that crimes will be committed. What should the lawyer do?

The lawyer is a member of the legal system and is charged with upholding the law. The lawyer also owes duties of confidentiality to the corporate client. Revealing the confidential information would prevent the commission of a major economic crime. In many states, the lawyers' rules of professional responsibility would only provide that a lawyer *may* resign after trying various ways to blow the whistle inside the corporation.

The lawyer is thus faced with a conflict between the duty of confidentiality and the duty to uphold the law. Universalizing the action alternatives fails to provide clear-cut guidance. Widespread breaching of confidentiality may cause clients to become reluctant to disclose information to their attorneys, thus restricting their ability to provide proper representation. On the other hand failing to disclose may result in much higher levels of crime, assisted by the passiveness of lawyers.

The basic concept of a mandatory duty runs into trouble when a decision maker is confronted with conflicting obligations. Some additional methodology is required to establish priorities for dealing with instances of conflicting duties. Duty-based theorists have responded to this problem by constructing hierarchical systems of duties and proposing decision techniques based upon concepts of procedural justice. The hierarchical systems never seem to eliminate completely the problem of conflicting duties; instead, they just refine the conflict to a consideration of competing comparable duties. Systems which rely solely upon standards of procedural justice similarly beg the issue. Without some method of assigning relative weights to principles of duty, the individual businessperson is left with little guidance as to how to act in the many situations that involve conflicting duties.

The idea that a profession may set its own ethical rules is a form of relativism. Although representatives of a profession may have special insights into the daily practice and social role of the profession, they cannot be the final arbiters, in an ultimate sense, of what is "right" in professional practice. Instead, their actions developing professional ethical standards must always be subject to testing under general ethical theory. Many professions over the years have developed ethical standards that limit competition among their members or that set minimum fees.

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Utilitarianism

Utilitarianism constitutes an alternative to a duty-based approach. Utilitarians are concerned with the ultimate impact of actions on the welfare of society as a whole. The emphasis is on the greatest good for the greatest number. Recall the example of the use of newspaper vending machines and waiting lines. A utilitarian would evaluate the practice of cutting into lines or of putting slugs into the machines on the basis of the overall effect on society. If such behaviors were common, the queuing effect of the lines would disappear, resulting in physical strength determining position in line; and the convenience of newspaper vending machines would be lost. Thus, such actions would also be found unethical under a utilitarian view.

The utilitarian calculation is made from the viewpoint of society as a whole, not just from the perspective of the actor. An individual cannot calculate what would be best for him or her and claim a utilitarian justification for the action. That would be an example of egoism.

By its emphasis on final outcomes, utilitarianism appears to avoid some of the problems encountered by the duty-based approach. Closer observation, however, reveals that utilitarians also encounter significant difficulties. A fundamental question for the utilitarian is how society's interest should be calculated. The question can be approached in very different ways. Under one approach, happiness and freedom from pain is the primary good to be used in evaluating the morality of actions. Others emphasize principles of intrinsic worth, for example, health.

A quite different approach is to evaluate an action on whether its outcome serves to maximize the preferences of individuals within society, whatever those preferences happen to be. Individuals are assumed to have very different individual preferences: some prefer the beach, some prefer the mountains, some like self-denial, others like to consume conspicuously. Advocates of maximizing personal utility argue that an action is ethical when it tends to allow other individuals the opportunity to realize their own personal preferences. Under a liberty-as-key utility approach actions that significantly interfere with the liberties of others would be characterized as unethical. Marketplace decisions and voting are

the two primary ways in which individuals indicate their preferences.

There are two forms of utilitarianism: act and rule utilitarianism. **Act utilitarianism** requires an ad hoc analysis of each and every action that may have moral consequences. Once agreement is reached on the ultimate criteria to use in evaluating outcomes (happiness, health, maximization of personal utilities), the difficult task of measuring the probable impact must be faced. The problem is similar to that faced in any sort of cost-benefit type of analysis. How can the various costs and benefits be put into equivalent terms?

The second form of utilitarianism is called **rule utilitarianism**. Rule utilitarians avoid making an independent judgment for every proposed act. Instead, rules are identified that are assumed to maximize utility. A probability judgment is made that if certain behavior predominates—for example, businesspeople always try to act in good faith—then maximum utility will result. Although rule utilitarianism may seem similar to a duty-based analysis, it differs in a fundamental regard. The rule utilitarian devises the rules solely on the basis of whether they are likely to contribute to right outcomes. Further information about a rule's effectiveness or a change in patterns of behavior that alter the likely outcomes produced by a rule should result in remodeling the rule. In contrast, duty-based rules are understood as more fundamental and unchangeable, and such duties are to be observed even when they impose net costs on society.

Pareto superiority, a principle of public choice, involves related principles and can be applied to a utilitarian analysis. An action is Pareto superior if it improves the situation of a person or group and no one else is harmed by it. Pareto superiority is concerned with outcomes and involves evaluating the impact of an action upon others, and thus is consistent with a utilitarian analysis.

One major problem with Pareto superiority is that it takes the status quo as given. Major inequities may be preserved as actions are evaluated on the basis of whether they produce benefit on their own accord. Pareto superiority cannot be used to condemn the status quo. Thus, actions supporting apartheid could be characterized as ethical using a standard of Pareto superiority so long as some white South-Africans are better off and no blacks are worse off. Another problem is that few

important policies or actions can ever meet the stringent requirement that no one be made worse off. Thus, Pareto superiority is irrelevant to most of the tough decisions involving business ethics.

Social Contract

The classical social contract theories are based upon a hypothetical contract among the members of a society, or between the members of a society and a sovereign or government. The parties agree to the terms of the contract because, as rational people, they understand that the only way to solve a particular problem (avoiding anarchy or establishing a productive business environment) is to have an unwritten agreement establishing certain standards of behavior and rights. The theories of social contract often generate fundamental justice principles pertaining to the division of wealth, rights and responsibilities within a society.

Several social contract theories are directly related to business ethics. In his influential book, *Morals by Agreement*,³ David Gauthier bases a social contract upon an assumption that people are rational egoists. He claims that self-interested people will cooperate in order to maximize their own well-being, and would agree to a social contract based upon self-restraint.

Thomas Donaldson has worked out social contract theories directly relevant to business ethics. In his 1989 book, *The Ethics of International Business*,⁴ Donaldson uses the metaphor of a global social contract as a device for determining what constitutes ethical behavior in international business transactions. Donaldson engages in a "thought experiment" and asks what type of arrangement would rational people enter into if they were required to design a new world of international business. Donaldson concludes that people would want to establish a minimal floor of responsibility for global corporations. All corporations would be required to respect a set of fundamental rights. His list (p. 81) includes the following:

1. The right to freedom of physical movement
2. The right to ownership of property
3. The right to freedom from torture
4. The right to a fair trial
5. The right to nondiscriminatory treatment (based on race or sex)

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6. The right to physical security
7. The right to freedom of speech and association
8. The right to minimal education
9. The right to political participation
10. The right to subsistence

Real Social Contracts? Business literature is filled with references to real, existing social contracts. It is common to find managers and labor leaders referring to "the" social contract which is thought to exist between employers and employees. Such real social contracts can be a source of specific ethical obligations. Identifiable ethical norms can be found within such diverse groups in business as corporations, real estate brokers, travel agents, purchasing executives, and so on. Individuals who become members of such groups, or who engage in transactions where widely accepted ethical norms exist will be expected to conform to those norms.

Integrative Social Contracts Theory
Thomas Donaldson and Thomas Dunfee have envisioned a hypothetical social contract which takes into account the ethical standards developed by groups through real social contracts. They envision global humanity coming together to work out a rational arrangement for ethics in economic life. The rational humans at this global convention would recognize that moral rationality is bounded in the same way that economic rationality is bounded. Moral agents, when attempting to decide the right thing to do, are constrained by a lack of information and a limited amount of time for making the decision. Consider the manager who must decide whether to hold up the Challenger space shuttle to replace the O-ring seal. If the manager is a utilitarian the manager must somehow estimate the probabilities that the seal will fail, and the voluminous consequences that would attend to a decision to hold up the launch. Although after the fact the decision may seem obvious, at the time it was made it was virtually impossible to make a true utilitarian decision.

Similarly, ethical theorists are limited in their ability to design an ethical calculus applicable to all humanity in all contexts. This is particularly the case with regard to business decision-making. What is the ethical decision for a travel agent whose large corporate client wants the agent to use fare loopholes to reduce costs and whose

suppliers (airlines in this case) state they don't want travel agents to use loopholes? Before an Immanuel Kant, or any other ethical theorist could respond to this question, he (or she) would have to have a full understanding of the business environment in which the decision will be made.

Thus, the global conventioners charged with designing a system for economic ethics would recognize the constraints imposed by bounded moral rationality. But they would also want to have a moral fabric in business in order to provide a conducive environment for wealth generation. How can they do this? A plausible solution is for them to agree to allow people to form into economic groupings as they wish, and to generate binding ethical norms for members of the groups. Thus, Donaldson and Dunfee conclude that they would want business communities or groups to have **moral free space**. People, including managers, would want to have moral free space because they want to keep their moral options open until they confront the full context and environment of a decision. Further, they would want to retain the freedom to specify norms of economic interaction consistent with their own cultural, ideological, and/or religious preferences. Thus, "(m)uslim managers may wish to participate in systems of economic ethics compatible with the teachings of Mohammed; European and American managers may wish to participate in systems of economic ethics giving due respect to individual liberty; and Japanese managers may prefer systems showing respect for the value of the collective."

Local norms, based upon social contracts among groups of people, could be identified by determining what the members of the group believe to be right and wrong behaviors, and by also noting the actual behavior of the group. When a substantial majority of a group, be it a corporation, trade association, bar association, or any other community of individuals, believe that a particular action is wrong, and eschew such behavior, then it can be said that a norm exists authentic to that group.

However, the humans designing an ethical system would not want to allow all such norms to be considered ethical norms. There may be norms that condone murder as a method of enforcing contracts, or that endorse coarse racial or sexual discrimination. As a consequence, it can be assumed that they would want to restrict the moral

free space of communities by requiring that before any community norms become ethically obligatory, they must be found to be compatible with hypernorms. Hypernorms (the norms by which all other norms are to be judged) entail principles so fundamental to human existence that we would expect them to be reflected in a convergence of religious, philosophical and cultural beliefs. A list of hypernorms would include such things as:

- An obligation to respect the dignity of each human person
- Core human rights, such as personal freedom, physical security and well being, the ownership of property, etc.

Thus, in order to be found ethically obligatory, a norm generated in moral free space must be compatible with hypernorms. But before we can say that a particular norm must be followed, another problem must be resolved. There are literally millions of communities generating millions of norms. Individuals simultaneously belong to different communities which may have directly contradictory norms. Many transactions cross communities (e.g., a U.S. firm doing business in Indonesia) where there are directly conflicting norms. These circumstances require a determination of which community's norms are to prevail.

Donaldson and Dunfee propose a set of six priority rules for sorting among mutually exclusive norms. These are particularly important in global business transactions. The rules are as follows:

1. Transactions solely within a single community, which do not have significant adverse effects on other humans or communities, should be governed by the host community's norms.
2. Community norms indicating a preference for how conflict of norms situations should be resolved should be applied, so long as they do not have significant adverse effects on other humans or communities.
3. The more extensive or more global the community which is the source of the norm, the greater the priority which should be given to the norm.
4. Norms essential to the maintenance of the economic environment in which the transac-

tion occurs should have priority over norms potentially damaging to that environment.

5. Where multiple conflicting norms are involved, patterns of consistency among the alternative norms provides a basis for prioritization.
6. Well-defined norms should ordinarily have priority over more general, less precise norms.

The priority rules are to be applied in a manner consistent with the letter and spirit of the macro social contract and are not intended as theoretically precise principles. The six rules are to be weighed and applied in combination. Similar to the process of statutory interpretation, there is no precise hierarchy for the six rules, and instead, emphasis should be on the fit of the particular ethical principle with one or two of the principles, or with a convergence of the rules toward a particular result.

Integrative Social Contracts Theory "establishes a means for displaying the ethical relevance of existing norms in industries, corporations, and other economic communities, even as it limits the acceptable range of such norms. . . . It . . . advocates much closer scrutiny of existing ethical beliefs and practices in institutions as dissimilar as the EC, the Sony Corporation, the international rubber market, and Muslim banks."⁶

CONCEPT SUMMARY Business Ethics

1. Utilitarianism—do that which produces the best consequences
2. Duty-based ethics—act with the intention to honor fundamental duties—act as though you could will that your action be a general rule for humankind
3. Social contract—act consistent with the standards that all rational humans would agree to, honor generally understood agreements
4. Stakeholder analysis—consider the interests of those who have a significant stake in your decisions
5. Virtue—live with honor and self-respect, exercise self-restraint

Moral Development and Individual Ethics

Moral psychologist Lawrence Kohlberg spent many years observing how young boys reasoned about moral issues. Kohlberg studied the manner in which moral reasoning evolved and ultimately developed an influential framework based upon six stages of human moral development. Kohlberg concluded that all humans begin at a very selfish stage and then as a result of experience evolve more sophisticated ways of thinking about moral dilemmas. Kohlberg claimed that the process of moral development was invariable in that individuals didn't skip stages, but instead, went through the stages in sequence. He also concluded that one would never regress from a higher stage to a lower stage. The progress that he observed is from a self-oriented thinking to a second level he described as a conventional or social level in which the primary reference is to social norms, peer opinion and law. Almost all the subjects studied ended up at one of these two levels. A few advanced to a third level of moral autonomy in which their reasoning was based upon universal ethical concepts. Table 8-1 summarizes Kohlberg's framework.

A primary value of the Kohlberg framework is as a device to characterize arguments. A cost-benefit calculation whether to obey the law (what are the chances of my getting caught and what will it cost me?) is stage 1 reasoning. A decision to obey the law, because it is the law and it is socially desirable for people to obey the law, is stage 4 reasoning. Note that the stage 1 thinker and the stage 4 thinker may come to the same decision, but their reasoning is vastly different.

The Kohlberg framework has been roundly criticized. Carol Gilligan, noting that Kohlberg's studies were limited to males, has presented an alternative view. Gilligan is concerned that a formal social justice framework such as Kohlberg's fails to be sufficiently open to relational and caring dimensions of ethics. Gilligan's studies of young girls found that they tended to think quite differently about certain types of moral issues. Others have challenged the hierarchal implica-

tions of Kohlberg's work, arguing that the framework lacks philosophical justification when it implies that a duty-based approach is superior to social contract, or that a law-and-order orientation is superior to recognizing duties to family and close friends.

Studies of managers have found that they tend to vary the stage of moral reasoning used depending upon the context of the decision. Most managers appear to be at stage 3 or stage 4 and are therefore similar to the population as a whole. Yet at the same time, surveys indicate that there is a significant amount of questionable behavior on the part of managers. A major issue is whether the behavior of managers is getting less ethical over time. Unfortunately, good time-series studies have yet to be conducted to provide a definitive answer to that important question. The replicated studies that do exist do not show a dramatic trend toward less ethical behavior.

It is common to hear statements to the effect that modern society has lost its moral compass and, particularly that young people are less ethical than used to be the case. Consider the information in Tables 8-2 and 8-3 which report data taken from a massive study undertaken by Donald McCabe and Linda Trevino.

Do you agree with the findings reported in the two tables? Are they consistent with your experience? If so, why do you think so much cheating occurs? What kind of changes could be made to bring about a lowering in the amount of cheating? Why would you think that studying business or planning a business career would be associated with a greater amount of cheating?

TABLE 8-1

Kohlberg's Model of Levels and Stages of Moral Development	
Level	Stage
Pre-conventional level (Self-interest)	Stage 1: Avoid pain, get reward
	Stage 2: Naive instrumental hedonism; back scratching
Conventional level (Group orientation)	Stage 3: Good boy—good girl; approval of peers, family
	Stage 4: Law and order, recognize duty to society, obey legitimate authority
Post-conventional (Moral autonomy)	Stage 5: Obey good laws, recognize a social contract, recognize individual rights
	Stage 6: Act in accord with logical, consistent, universal moral principles

TABLE 8-2

Self-Reported Cheaters by Intended Occupation*					
	N	% Self-Reported Cheaters		N	% Self-Reported Cheaters
Arts	484	65	Law	552	63
Business	1,090	76	Medicine	623	68
Education	967	58	Public/govt. service	444	67
Engineering/science	861	72	Other	551	66

*Comparisons of business with other occupations using a simple *t* test are significant at $p < 0.05$ or better.

TABLE 8-3

Self-Reported Cheating by Undergraduate Major*					
	Student Reports		Faculty Reports		
	N	%	N	%	
Business	274	87	32	69	
Engineering/science	1,608	72	238	84	
Humanities/social sciences	3,912	64	469	82	
Other	234	67	45	76	

*Student comparisons of business majors with other majors using a simple *t* test are significant at $p < 0.001$. Faculty comparisons of business with other majors are significant at $p < 0.01$.

From Donald L. McCabe and Linda Klebe Trevino, "Cheating among Business Students: A Challenge for Business Leaders and Educators," Working Paper, 1992.