PART ONE

Basic Principles

Business ethics is applied ethics. It is the application of our understanding of what is good and right to that assortment of institutions, technologies, transactions, activities, and pursuits that we call business. A discussion of business ethics must begin by providing a framework of basic principles for understanding what is meant by the terms good and right; only then can one proceed to profitably discuss the implications these have for our business world. These first two chapters provide such a framework. Chapter 1 describes what business ethics is in general and explains the general orientation of the book. Chapter 2 describes several specific approaches to business ethics, which together furnish a basis for analyzing ethical issues in business.
What is "business ethics"?
What is corporate social responsibility?
Is ethical relativism right?
How does moral development happen?
What role do emotions have in ethical reasoning?
What are the impediments to moral behavior?
When is a person morally responsible for doing wrong?
Is ethical relativism right?
Maybe the best way to introduce a discussion of business ethics is by looking at how a real company has incorporated ethics into its operations. Consider then how Merck & Co., Inc., a U.S. drug company, dealt with the issue of river blindness.

River blindness is a debilitating disease that has afflicted about 18 million impoverished people living in remote villages along the banks of rivers in tropical regions of Africa and Latin America. The disease is caused by a tiny parasitic worm that is passed from person to person by the bite of the black fly, which breeds in fast-flowing river waters. The tiny worms burrow under a person’s skin, where they grow as long as 2 feet curled up inside ugly round nodules half an inch to an inch in diameter. Inside the nodules, the female worms reproduce by releasing millions of microscopic offspring called *microfilariae* that wriggle their way throughout the body moving beneath the skin, discoloring it as they migrate, and causing lesions and such intense itching that victims sometimes commit suicide. Eventually, the *microfilariae* invade the eyes and blind the victim. In some West African villages, the parasite had already blinded more than 60 percent of villagers over fifty-five. The World Health Organization estimated that the disease had blinded 270,000 people and left another 500,000 with impaired vision.

Pesticides no longer stop the black fly because it has developed immunity to them. Moreover, until the events described below, the only drugs available to treat the parasite in humans were so expensive, had such severe side effects, and required such lengthy hospital stays that the treatments were impractical for the destitute victims who lived in isolated rural villages. In many countries, young people fled the areas along the rivers, abandoning large tracts of rich fertile land. Villagers who stayed to live along the rivers accepted the nodules, the torturous itching, and eventual blindness as an inescapable part of life.

In 1980, Dr. Bill Campbell and Dr. Mohammed Aziz, research scientists working for Merck, discovered evidence that one of the company’s best-selling animal drugs, Ivermectin, might kill the parasite that causes river blindness. Dr. Aziz, who had once worked in Africa and was familiar with river blindness, traveled to Dakar, Senegal, where he tested the drug on villagers who had active infections. Astonishingly, he discovered that a single dose of the drug not only killed all the microfilariae, it also made the female worms sterile and made the person immune to new infections for months. When Aziz returned to the United States, he and Dr. Campbell went to see Merck’s head of research and development, Dr. P. Roy Vagelos, a former physician. They showed him their results and recommended that Merck develop a human version of the drug.

At the time, it cost well over $100 million to develop a new drug and test it in the large-scale clinical studies the U.S. government required. Roy Vagelos realized that even if they succeeded in developing a human version of the drug for the victims of river blindness, “It was clear that we would not be able to sell the medicine to these people, who would not be able to afford it even at a price of pennies per year.” And even if the drug was affordable, it would be almost impossible to get it to most of the people who had the disease since they lived in remote areas without access to doctors, hospitals, clinics, or drug stores. Moreover, if the drug had bad side effects for humans, these could threaten sales of the animal version of the drug, which were about $300 million a year. Finally, if a cheap version of the human drug was made available, it could be smuggled through black markets and resold for use on animals, thereby undermining the company’s sales of Ivermectin to veterinarians.

Although Merck had worldwide sales of $2 billion a year, its net income as a percent of sales had been in decline due to the rapidly rising costs of developing new drugs, the increasingly restrictive and costly regulations being imposed by government agencies, a lull in basic scientific breakthroughs, and a decline in the productivity of company research programs. The U.S. Congress was getting ready to pass
the Drug Regulation Act, which would intensify competition in the drug industry by allowing competitors to more quickly copy and market drugs originally developed by other companies. Medicare had recently put caps on reimbursements for drugs and required cheaper generic drugs in place of the branded-name drugs that were Merck’s major source of income. In the face of these worsening conditions in the drug industry, was it a good idea for Merck to undertake an expensive project that showed little economic promise? On top of all this, Vagelos later wrote:

There was a potential downside for me personally. I hadn’t been on the job very long and I was still learning how to promote new drug development in a corporate setting. While we had some big innovations in our pipeline, I was still an unproven rookie in the business world. I would be spending a considerable amount of company money in a field, tropical medicine, that few of us other than Mohammed Aziz knew very well … CEO Henry Gadsden had become worried—with good cause—about Merck’s pipeline of new products, and he had hired me to solve that problem. It was as obvious to me as it was to Mohammed and Bill that even if Ivermectin was successful against river blindness, the drug wasn’t going to pump up the firm’s revenue and make the stockholders happy. So I was being asked to take on some risk for myself and for the laboratories.  

Vagelos knew he was faced with a decision that, as he said, “had an important ethical component.” Whatever the risk to the company and his career, it was clear that without the drug, millions would be condemned to lives of intense suffering and partial or total blindness. After talking it over with Campbell, Aziz, and other managers, Vagelos came to the conclusion that the potential human benefits of a drug for river blindness were too significant to ignore. In late 1980, he approved a budget that provided the money needed to develop a human version of Ivermectin.

It took seven years for Merck to develop a human version of Ivermectin. The company named the human version Mectizan. A single pill of Mectizan taken once a year could eradicate from the human body all traces of the parasite that caused river blindness and prevented new infections. Unfortunately, exactly as Vagelos had earlier suspected, no one stepped forward to buy the miraculous new pill. Over the next several years, Merck officials—especially Vagelos who by then was Merck’s chief executive officer (CEO)—pleaded with the World Health Organization (WHO), the U.S. government, and the governments of nations afflicted with the disease, asking that someone—anyone—come forward to buy the drug to protect the 100 million people who were at risk for the disease. None responded to the company’s pleas.

When it finally became clear no one would buy the drug, the company decided to give Mectizan away for free to victims of the disease. Yet, even this plan proved difficult to implement because, as the company had earlier suspected, there were no established distribution channels to get the drug to the people who needed it. Working with the WHO, therefore, the company financed an international committee to provide the infrastructure to distribute the drug safely to people in the Third World and to ensure that it would not be diverted into the black market to be sold for use on animals. Paying for these activities raised the amount it invested in developing, testing, and now distributing Mectizan to well over $200 million, without counting the cost of manufacturing the drug itself. By 2010, Merck had given away more than 2.5 billion tablets of Mectizan worth approximately $3.5 billion and was providing the drug for free to 80 million people a year in Africa, Latin America, and the Middle East. Besides using the drug to relieve the intense sufferings of river blindness, the company had expanded the program to include the treatment of elephantiasis, a parasitic disease...
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that often coexists with river blindness which Merck researchers discovered could also be treated with Mectizan. By 2010, over 300 million people had received Mectizan to treat elephantiasis and 70 million more received it the following year.

When asked why the company invested so much money and effort into researching, developing, manufacturing, and distributing a drug that makes no money, Dr. Roy Vagelos, CEO of the company, replied that once the company suspected that one of its animal drugs might cure a severe human disease that was ravaging people, the only ethical choice was to develop it. Moreover, people in the Third World “will remember” that Merck helped them, he commented, and will respond favorably to the company in the future. Over the years, the company had learned that such actions have strategically important long-term advantages. “When I first went to Japan 15 years ago, I was told by Japanese business people that it was Merck that brought streptomycin to Japan after World War II to eliminate tuberculosis which was eating up their society. We did that. We didn’t make any money. But it’s no accident that Merck is the largest American pharmaceutical company in Japan today.”

Having looked at how Merck dealt with its discovery of a cure for river blindness, let us now turn to the relationship between ethics and business. Pundits sometimes quip that business ethics is a contradiction in terms—an “oxymoron”—because there is an inherent conflict between ethics and the self-interested pursuit of profit. When ethics conflicts with profits, they imply, businesses always choose profits over ethics. Yet, the case of Merck suggests a different perspective—a perspective that many companies are increasingly taking. The managers of this company spent $200 million developing a product that they knew had little chance of ever being profitable because they felt they had an ethical obligation to make its potentially great benefits available to people. In this case, at least, a large and very successful business seems to have chosen ethics over profits. Moreover, the comments of Vagelos at the end of the case suggest that, in the long run, there may be no inherent conflict between ethical behavior and the pursuit of profit. On the contrary, the comments of Vagelos suggest that ethical behavior creates the kind of goodwill and reputation that expand a company’s opportunities for profit.

Not all companies operate like Merck, and Merck itself has not always operated ethically. Many—perhaps most—companies will not invest in a research and development project that will probably be unprofitable even if it promises to benefit humanity. Every day newspapers announce the names of companies that choose profits over ethics or that, at least for a time, profited through unethical behavior—Enron, Worldcom, Global Crossing, Rite-Aid, Oracle, ParMor, Adelphia, Arthur Andersen, Louisiana-Pacific, and Qwest—are but a few of these. In 2004, even Merck was accused of failing to disclose heart problems associated with its drug Vioxx, and in 2010 the company put $4.85 billion into a fund to compensate patients who said they had suffered heart attacks or strokes because they had used Vioxx. (In spite of its significant lapse in regard to Vioxx, Merck has remained committed to operate ethically and has continued to win dozens of awards for its openness and ethically responsible operations.)

Although there are many companies that at one time or another have engaged in unethical behavior, habitually unethical behavior is not necessarily a good long-term business strategy for a company. For example, ask yourself whether, as a customer, you are more likely to buy from a business that you know is honest and trustworthy or one that has earned a reputation for being dishonest and crooked. Ask yourself whether, as an employee, you are more likely to loyally serve a company whose actions toward you are fair and respectful or one that habitually treats you and other workers unjustly and disrespectfully. Clearly, when companies are competing against each other for customers and for the best workers, the company with a reputation for ethical behavior has an advantage over one with a reputation for being unethical.
This book takes the view that ethical behavior is the best long-term business strategy for a company—a view that has become increasingly accepted during the last few years. This does not mean that occasions never arise when doing what is ethical will prove costly to a company. Such occasions are common in the life of a company, and we will see many examples in this book. Nor does it mean that ethical behavior is always rewarded or that unethical behavior is always punished. On the contrary, unethical behavior sometimes pays off, and the good guy sometimes loses. To say that ethical behavior is the best long-range business strategy just means that, over the long run and for the most part, ethical behavior can give a company significant competitive advantages over companies that are not ethical. The example of Merck suggests being ethical is good business strategy, and a bit of reflection on how we, as consumers and employees, respond to companies that behave unethically supports the view that unethical behavior leads to a loss of customer and employee support. Later, we will see what more can be said for or against the view that ethical behavior is the best long-term business strategy for a company.

The more basic problem is, of course, that the ethical course of action is not always clear to a company’s managers. In the Merck case, Roy Vagelos decided that the company had an ethical obligation to proceed with the development of the drug. Yet to someone else the issue may not have been so clear. Vagelos notes he would be “spending a considerable amount of company money” in a way that would not “make stockholders happy” and that would put his own career at “some risk.” Don’t the managers of a company have a duty toward investors and shareholders to invest their funds in a profitable manner? Indeed, if a company spent all of its funds on charitable projects that lost money, wouldn’t it soon be out of business? Then, wouldn’t its shareholders be justified in claiming that the company’s managers had spent their money unethically? And should Vagelos have risked his career, with the implications this had for his family? Is it so clear, then, that Vagelos had an ethical obligation to invest in an unprofitable drug? What reasons can be given for his belief that Merck had an obligation to develop the drug? Can any good reasons be given for the claim that Merck had no such obligation? Which view do you think is supported by the strongest reasons?

Although ethics may be the best policy, then, the ethical course of action is not always clear. The purpose of this book is to help you, the reader, deal with this lack of clarity. Although many ethical issues remain difficult and obscure even after a lot of study, gaining a better understanding of ethics will help you deal with ethical uncertainties in a more adequate and informed manner.

This text aims to clarify the ethical issues that you may face when you work in a business and perhaps, become part of a company’s management team. This does not mean that it is designed to give you moral advice nor that it is aimed at persuading you to act in certain “moral” ways. The main purpose of the text is to provide you with a deeper knowledge of the nature of ethical principles and concepts along with an understanding of how you can use this knowledge to deal with the ethical choices you will encounter in the business world. This type of knowledge and skill should help you steer your way through ethical decisions like the one Vagelos had to make. Everyone in business is confronted with decisions like these, although usually not as significant as deciding whether to pursue a potential cure for river blindness. Before you even start working for a company, for example, you will be faced with ethical decisions about how “creative” your resume should be. Later, you may have to decide whether to cut corners just a little in your job, or whether to give your relative or friend a company contract, or whether to put a little extra into the expenses you report for a company trip you made. Or maybe you will catch a friend stealing from the company and have to decide whether to turn him in, or you will find out
your company is doing something illegal and have to decide what you are going to do about it, or maybe your boss will ask you to do something you think is wrong. Ethical choices confront everyone in business, and this text hopes to give you some ways of thinking through these choices.

The first two chapters will introduce you to some methods of moral reasoning and some fundamental moral principles that can be used to analyze moral issues in business, as well as some of the obstacles that can get in the way of thinking clearly about ethical issues. The following chapters apply these principles and methods to the kinds of moral dilemmas that confront people in business. We begin in this chapter by discussing three preliminary topics: (1) the nature of business ethics and some of the issues it raises, (2) moral reasoning and moral decision-making, and (3) moral responsibility. Once these notions have been clarified, we devote the next chapter to a discussion of some basic theories of ethics and how they relate to business.

1.1 The Nature of Business Ethics

According to the dictionary, the term *ethics* has several meanings. One of the meanings given to it is: “the principles of conduct governing an individual or a group.” We sometimes use the term *personal ethics*, for example, when referring to the rules by which an individual lives his or her personal life. We use the term *accounting ethics* when referring to the code that guides the professional conduct of accountants.

A second—and for us more important—meaning of *ethics* according to the dictionary is this: Ethics is “the study of morality.” Just as chemists use the term *chemistry* to refer to a study of the properties of chemical substances, ethicists use the term *ethics* to refer primarily to the study of morality. Although ethics deals with morality, it is not quite the same as morality. Ethics is a kind of investigation—and includes both the activity of investigating as well as the results of that investigation—whereas morality is the subject matter that ethics investigates.

**Morality**

So what, then, is morality? We can define *morality* as the standards that an individual or a group has about what is right and wrong, or good and evil. To clarify what this means, let’s consider another case, one that is a bit different from the Merck case.

Several years ago, B. F. Goodrich, a manufacturer of vehicle parts, won a military contract to design, test, and manufacture aircraft brakes for the A7-D, a new light airplane the U.S. Air Force was designing. To conserve weight, Goodrich managers guaranteed that their compact brake would weigh no more than 106 pounds, contain no more than four small braking disks or “rotors,” and be able to repeatedly stop the aircraft within a specified distance. The contract was potentially very lucrative for the company and so its managers were anxious to deliver a brake hat “qualified,” that is, that passed all the tests the U.S. Air Force required for the A7-D.

An older Goodrich engineer, John Warren, designed the brake. A young engineer named Searle Lawson was given the job of determining the best material to use as the brake lining and testing the brake to make sure it “qualified.” Searle Lawson was in his twenties. He had just graduated from school with an engineering degree and Goodrich had only recently hired him.

Lawson built a “prototype”—a working model—of the small brake to test lining materials. He found that when the brake was applied, the linings on the four rotors heated up to 1500 degrees and began disintegrating. When he tried other linings and
got the same results, Lawson went over Warren’s design and decided it was based on a mistake. By his own calculations, there was not enough surface area on the rotors to stop an airplane in the required distance without generating so much heat the linings failed. Lawson went to Warren, showed him his calculations and suggested Warren’s design should be replaced with a new design for a larger brake with five rotors. Warren rejected the suggestion that his design was based on a mistake that a “green kid” just out of engineering school had discovered. He told Lawson to keep trying different materials for brake linings until he found one that worked.

But Lawson was not ready to give up. He went to talk with the manager in charge of the project and showed him his calculations. The project manager had repeatedly promised his own superiors that development of the brake was on schedule and knew he would probably be blamed if the brake was not delivered as he had promised. Moreover, he probably felt he should trust Warren who was one of his best engineers, rather than someone just out of engineering school. The project manager told Lawson that if Warren said the brake would work, then it would work. He should just keep trying different materials like Warren told him to do. Lawson left the project manager feeling frustrated. If he did not have the support of his superiors, he thought, he would just keep working with the brake Warren designed.

Several weeks later Lawson still had not found a lining that would not disintegrate on the brake. He spoke with his project manager again. This time his project manager told him to just put the brake through the tests required to “qualify” it for use on the A7-D airplane. Then, the manager told him in no uncertain terms that no matter what, he was to make the brake pass all its qualifying tests. His manager’s orders shook Lawson and he later shared his thoughts with Kermit Vandivier, a technical writer who had been assigned to write a report on the brake:

I just can’t believe this is really happening. This isn’t engineering, at least not what I thought it would be. Back in school I thought that when you were an engineer you tried to do your best, no matter what it cost. But this is something else. I’ve already had the word that we’re going to make one more attempt to qualify the brake and that’s it. Win or lose, we’re going to issue a qualification report. I was told that regardless of what the brake does on tests, it’s going to be qualified.9

Lawson put together a production model of the brake and ran it through the tests a dozen times. It failed every time. On the thirteenth attempt, Lawson “nursed” the brake through the tests by using special fans to cool the brake and by taking it apart at each step, cleaning it carefully, and fixing any distortions caused by the high heat. At one point, a measuring instrument was apparently deliberately miscalibrated so it indicated that the pressure applied on the brake was 1000 pounds per square inch (the maximum available to the pilot in the A7-D aircraft) when the pressure was actually 1100 pounds per square inch.

Kermit Vandivier, who was to write the final report on the tests, was also troubled. He talked the testing over with Lawson who said that he was just doing what the project manager had ordered him to do. Vandiver decided to talk with the senior executive in charge of his section. The executive listened, but then said, “It’s none of my business and it’s none of yours.” Vandivier asked him whether his conscience would bother him if during flight tests on the brake something should happen resulting in death or injury to the test pilot. The Goodrich executive answered, “Why should my conscience bother me? … I just do as I’m told, and I’d advise you to do the same.”10

When Kermit Vandivier was told to write up a report that concluded the brake had passed all qualifying tests, he refused. Such a report, he felt, would amount to
“deliberate falsifications and misrepresentations” of the truth. But a short time later, he changed his mind. He later said:

My job paid well, it was pleasant and challenging, and the future looked reasonably bright. My wife and I had bought a home ... If I refused to take part in the A7-D fraud, I would have to either resign or be fired. The report would be written by someone anyway, but I would have the satisfaction of knowing I had had no part in the matter. But bills aren’t paid with personal satisfaction, nor house payments with ethical principles. I made my decision. The next morning I telephoned [my superior] and told him I was ready to begin the qualification report.

Lawson and Vandivier wrote the final report together. “Brake pressure, torque values, distances, times—everything of consequence was tailored to fit” the conclusion that the brake passed the qualifying tests. A few weeks after Goodrich published their report, the U.S. Air Force put the brakes on A7-D test planes and pilots began flying them.

Below, we will talk about what happened when test pilots flew the planes equipped with the Goodrich brakes. At this point, note that Lawson believed that as an engineer he had an obligation “to do your best, no matter what it cost,” and that Vandivier believed it was wrong to lie and to endanger the lives of others, and believed also that integrity is good and dishonesty is bad. These beliefs are all examples of moral standards. Moral standards include the norms we have about the kinds of actions we believe are morally right and wrong, as well as the values we place on what we believe is morally good or morally bad. Moral norms can usually be expressed as general rules about our actions, such as “Always tell the truth,” “It’s wrong to kill innocent people,” or “Actions are right to the extent that they produce happiness.” Moral values can usually be expressed with statements about objects or features of objects that have worth, such as “Honesty is good,” and “Injustice is bad.”

Where do moral standards come from? Typically, moral standards are first learned as a child from family, friends, and various societal influences such as church, school, television, magazines, music, and associations. Later, as we mature, our experience, learning, and intellectual development will lead us to think about, evaluate, and revise these standards according to whether we judge them to be reasonable or unreasonable. You may discard some standards that you decide are unreasonable, and may adopt new standards because you come to believe they are more reasonable than the ones you previously accepted. Through this maturing process, you develop standards that are more rational and so more suited for dealing with the moral issues of adult life. As Lawson and Vandivier’s example shows, however, we do not always live up to the moral standards we hold; that is, we do not always do what we believe is morally right nor do we always pursue what we believe is morally good. Later in the chapter, we will look at how our actions can become disconnected from our moral beliefs.

Moral standards can be contrasted with norms or standards we hold about things that are not moral. Examples of nonmoral standards and norms (sometimes also called “conventional” standards and norms) include the standards of etiquette by which we judge people’s manners as good or bad, the rules of behavior set by parents, teachers, or other authorities, the norms we call the law by which we determine what is legally right and wrong, the standards of language by which we judge what is grammatically right and wrong, the standards of art by which we judge whether a painting or a song is good or bad, and the sports standards by which we judge how well a game of football or basketball is being played. In fact, whenever we make judgments about
the right or wrong way to do things, or judgments about what things are good and bad, or better and worse, our judgments are based on standards or norms of some kind. In Vandivier’s case, we can surmise that he probably believed that reports should be written with good grammar; that having a well-paid, pleasant, and challenging job was a good thing; and that it’s right to follow the law. The conventional norms of good grammar; the value of a well-paid, pleasant, and challenging job; and the laws of government are also standards, but these standards are not moral standards. As Vandivier’s decision demonstrates, we sometimes choose nonmoral standards over our moral standards.

How do we distinguish between moral and nonmoral or conventional standards? Before reading any further, look at the two lists of norms below and see if you can tell which is the list of moral norms and which is the list of nonmoral norms:

**Group One**
- “Do not harm other people,”
- “Do not lie to other people,”
- “Do not steal what belongs to others.”

**Group Two**
- “Do not eat with your mouth open,”
- “Do not chew gum in class,”
- “Do not wear socks that do not match.”

During the last two decades, numerous studies have shown that the human ability to distinguish between moral norms and conventional or nonmoral norms emerges at a very early age and remains with us throughout life. The psychologist Elliot Turiel and several others have found that by the age of three, a normal child has acquired the ability to tell the difference between moral norms and conventional norms. By age three, the child sees violations of moral norms as more serious and wrong everywhere, while violations of conventional norms are less serious and wrong only where authorities set such norms. For example, three year olds will say that while it is not wrong to chew gum at schools where teachers do not have a rule against it, it is still wrong to hit someone even at schools where teachers do not have a rule against hitting. Because this ability to distinguish between moral and conventional norms develops in childhood, it was not just easy, but trivially easy for you to see that the norms in group one are moral norms, and those in group two are conventional. This innate ability to distinguish moral norms from conventional norms is not unique to Americans or Europeans or Westerners; it is an ability that every normal human being in every culture develops. People in all cultures may not completely agree on which norms are moral norms (although there is a surprising amount of agreement) and which are conventional, but they all agree that the two are different and that the difference is extremely important.

So what is the difference between moral norms and nonmoral or conventional norms? This is not an easy question to answer even if three year olds seem to know the difference. However, philosophers have suggested six characteristics that help pin down the nature of moral standards (and psychologists like Elliot Turiel and others have drawn on the work of philosophers to help them distinguish moral from nonmoral norms in their studies).

First, moral standards deal with matters that are serious, i.e., matters that we think can seriously wrong or significantly benefit human beings. For example, most people in American society hold moral standards against theft, rape, enslavement, murder, child abuse, assault, slander, fraud, lawbreaking, and so on. All of these plainly deal with matters that people feel are serious forms of injury. Because they are about serious matters, violating moral standards is seen as seriously wrong and we feel that the obligation to obey moral standards has greater claim on us than conventional norms do.
the Goodrich case, it was clear that both Lawson and Vandivier felt that lying in their report and endangering the lives of pilots were both serious harms and so both were moral matters, whereas adhering to grammatical standards was not. And because the benefits of developing a cure for river blindness were so significant, Dr. Vaglos felt that Merck had an obligation to develop the medicine Mectizan.

Second, and strikingly, we feel that moral standards should be preferred to other values including (and perhaps especially) self-interest. That is, if a person has a moral obligation to do something, then he or she is supposed to do it even if this conflicts with other, conventional norms or with self-interest. In the Goodyear case, for example, we feel that Lawson should have chosen the moral values of honesty and respect for life over the self-interested value of keeping his job. This does not mean, of course, that it is always wrong to act on self-interest; it only means that when we believe a certain standard or norm is a moral norm, then we also feel that it would be wrong to choose self-interest over the moral norm. This second characteristic of moral standards is related to the first part of the reason why we feel that moral standards should be preferred to other considerations is because moral standards deal with serious matters.

Third, unlike conventional norms, moral standards are not established or changed by the decisions of authority figures or authoritative bodies. Laws and legal standards are established by the authority of a legislature or the decisions of voters while family norms and classroom norms are set by parents and teachers. Authorities do not establish moral standards, however, nor does their validity rest on voters’ preferences, and so they cannot be changed by the decision of any person or group. Instead, the validity of moral standards rests on whether the reasons that support and justify them are good or bad; when moral standards are based on good reasons, the standards are valid.

Fourth, moral standards are felt to be universal. That is, if we genuinely hold that certain standards—such as “Do not lie” or “Do not steal”—are moral standards, then we will also feel that everyone should try to live up to those standards, and we will get upset when we see others transgressing them. When we learned that Bernard (“Bernie”) Madoff, and the managers of Enron and Lehman Brothers had all been lying to us and to their investors, and that Pfizer managers stole at least $1 billion from taxpayers, while Tenet Healthcare and HCA managers stole almost as much, we did not feel that it was okay for them to have violated our moral standards against lying and theft. We did not think: “It was okay for them to lie and steal, so long as they felt it was okay.” Nor did we think: “Although I feel lying and stealing is wrong, they do not have to abide by my moral standards.” On the contrary, the public got angry precisely because they felt that the standards against lying and stealing are moral standards, and so everyone has to abide by them, whether they want to or not. Conventional norms, on the other hand, are not seen as universal. Laws, for example, apply only within a specific jurisdiction; family rules are authoritative only within the family; game rules apply only to those playing the game, and so on.

Fifth, and generally, moral standards are based on impartial considerations. The fact that you will benefit from a lie while others will be harmed is irrelevant to whether lying is morally wrong. Some philosophers have expressed this point by saying that moral standards are based on “the moral point of view”—that is, a point of view that does not evaluate standards according to whether they advance the interests of a particular individual or group, but one that goes beyond personal interests to a “universal” standpoint in which everyone’s interests are impartially counted as equal. Other philosophers have made the same point by saying that moral standards are based on the kinds of impartial reasons that an “ideal observer” or an “impartial spectator” would accept, or that in deciding moral matters “each counts for one and none for more than one.” As we are going to see in the next chapter, however,
although impartiality is a characteristic of moral standards, it must be balanced with certain kinds of partiality, in particular, with the partiality that arises from legitimate caring for those individuals with whom you have a special relationship, such as family members and friends. Morality says that we should be impartial in those contexts where justice is called for, such as when we are setting salaries in a public company. But morality also identifies certain contexts, such as taking care of family members, where preferential caring for individuals can be morally legitimate and perhaps, even morally required.

Last, moral standards are associated with special emotions and a special vocabulary. For example, if I act contrary to a moral standard, I will normally feel guilty, ashamed, or remorseful; I will describe my behavior as “immoral” or “wrong,” and I will feel bad about myself and experience a loss of self-esteem. A careful reading of Lawson’s and Vandivier’s statements, for example, suggests that they felt ashamed and guilty about what they were doing. And when we see others acting contrary to a moral standard we accept, we normally feel indignation, resentment, or even disgust toward those persons; we say that they are not “living up” to their “moral obligations” or their “moral responsibilities” and we may esteem them less. This is perhaps what you felt when reading about what Lawson and Vandivier did.

Moral standards, then, are standards that deal with matters that we think are of serious consequence, are based on good reasons and not on authority, override self-interest, are based on impartial considerations, and are associated with special feelings such as guilt and shame, and with a special moral vocabulary such as “obligation,” or “responsibility.” We learn these standards as children from a variety of influences and revise them as we go through our lives.

**Ethics**

What, then, is ethics? **Ethics** is the discipline that examines your moral standards or the moral standards of a society. It asks how these standards apply to your life and whether these standards are reasonable or unreasonable—that is, whether they are supported by good reasons or poor ones. So you start to do ethics when you take the moral standards you have absorbed from family, church, and friends and ask yourself: What do these standards imply for the situations in which I find myself? Do these standards really make sense? What are the reasons for or against these standards? Why should I continue to believe in them? What can be said in their favor and what can be said against them? Are they really reasonable for me to hold? Are their implications in this or that particular situation reasonable?

Take Vandivier and the B. F. Goodrich case as an example. Vandivier had apparently been raised to accept the moral standard that one has an obligation to tell the truth, and so he felt that in his particular situation, it would be wrong to write a false report on the brake. But we might ask whether writing what he felt was a false report was really wrong in his particular circumstances. Vandivier had several important financial obligations both toward himself and other people. He states, for example, that he had just married and bought a house, so he had mortgage payments to make each month and had to provide support for his family. If he did not write the report as he was ordered to do, then he would be fired and not be able to live up to these obligations. Do these moral obligations toward himself and his family outweigh his obligation not to write a false report? What is the basis of his obligation to tell the truth, and why is the obligation to tell the truth greater or lesser than a person’s obligations toward oneself and one’s family? Consider, next, Lawson’s obligations toward his employer, B. F. Goodrich. Doesn’t an employee have a moral obligation to obey his employer? Does the obligation to obey one’s employer outweigh the obligation to
“try to do your best” as an engineer? What is the source of both of these obligations, and what makes one greater or lesser than another? Consider, also, that the company and all its older and more experienced managers insisted that the best course of action was to write the report qualifying the brake. If something went wrong with the brake or the contract, B. F. Goodrich would be held accountable, not Lawson, who was a young and relatively low-level employee. Because the company, not Lawson, would be held accountable, did the company have the moral right to make the final decision about the report, instead of Lawson, who had just finished college? Does the moral right to make a decision belong to the party that will be held accountable for the decision? What is the basis of such a right, and why should we accept it? Consider, finally, that Vandivier states that, in the end, his personal refusal to participate in writing the report would have given him some “satisfaction,” but would have made no difference to what happened because someone else would have been hired to write the report. Because the consequences would be the same whether he agreed or refused, did he really have a moral obligation to refuse? Can one have a moral obligation to do something that will make no difference? Why?

Notice the sort of questions to which we are led by the choices Vandivier and Lawson faced. They are questions about whether it is reasonable to apply various moral standards to their situation, whether it is reasonable to say that one moral standard is more or less important than another, and what reasons we might have to hold these standards. When you ask these kinds of questions about your own moral standards or about the moral standards of your society, you have started to do ethics. Ethics is the study of moral standards—the process of examining the moral standards you or your society (or other societies) hold in order to determine whether these standards are reasonable or unreasonable and how, if at all, they apply to the concrete situations and issues you face. The ultimate aim of ethics is to develop a body of moral standards that you feel are reasonable for you to hold—standards that you have thought about carefully and have decided are justified for you to accept and to apply to the choices that fill our lives.

Ethics is not the only way to study morality. The social sciences—such as anthropology, sociology, and psychology—also study morality, but do so in a way that is different from the approach to morality that ethics takes. While ethics is a normative study of morality, the social sciences engage in a descriptive study of morality. A normative study is an investigation that tries to reach normative conclusions—that is, conclusions about what things are good or bad or about what actions are right or wrong. In short, a normative study aims to discover what ought to be. As we have seen, ethics is the study of moral standards whose explicit purpose is to determine as far as possible which standards are correct or supported by the best reasons, and so it tries to reach conclusions about moral right and moral evil.

A descriptive study is one that does not try to reach any conclusions about what things are truly good or bad or right or wrong. Instead, a descriptive study tries to describe or explain the world without reaching any conclusions about whether the world is as it should be.
then, is concerned with developing reasonable normative claims and theories, whereas an anthropological or sociological study of morality aims at providing descriptive characterizations of people’s beliefs.

**Business Ethics**

What we have said about ethics so far has been meant to convey an idea of what ethics is. Here, however, we are not concerned with ethics in general, but with a particular field of ethics: *business ethics*. Business ethics is a specialized study of moral right and wrong that focuses on business institutions, organizations, and activities. Business ethics is a study of moral standards and how these apply to the social systems and organizations through which modern societies produce and distribute goods and services, and to the activities of the people who work within these organizations. Business ethics, in other words, is a form of applied ethics. It not only includes the analysis of moral norms and moral values, but also tries to apply the conclusions of this analysis to that assortment of institutions, organizations, and activities that we call *business*.

As this description of business ethics suggests, the issues that business ethics covers encompass a wide variety of topics. To introduce some order into this variety, it will help if we keep separate three different kinds of issues that business ethics investigates: systemic, corporate, and individual issues. Systemic issues in business ethics are ethical questions raised about the economic, political, legal, and other institutions within which businesses operate. These include questions about the morality of capitalism or of the laws, regulations, industrial structures, and social practices within which U.S. businesses operate. One example would be questions about the morality of the government contracting system through which B. F. Goodrich was allowed to test the adequacy of its own brake design for the A7-D. Another example would be questions about the morality of the international institutions with which Merck was forced to deal when it was looking for a way to get its cure for river blindness to the people who needed it most.

Corporate issues in business ethics are ethical questions raised about a particular organization. These include questions about the morality of the activities, policies, practices, or organizational structure of an individual company taken as a whole. One set of examples of this kind of issue would be questions about the morality of B. F. Goodrich’s corporate culture or questions about the company’s corporate decision to “qualify” the A7-D brake. For example, did the Goodrich Company violate anyone’s rights when it qualified the brake? What impact did the company’s actions have on the welfare of the parties with whom it interacted? Were the company’s actions just or unjust to other parties? Another set of examples would be questions about the morality of Merck’s corporate decision to invest so many millions of dollars in a project that would probably not generate any profits. In doing this, did the company violate the rights of its stockholders? Was Merck’s action fair and just to the various parties it affected? Yet other questions might be directed at B. F. Goodrich’s corporate policies: Were ethics concerns part of its ongoing decision-making process? Did the company encourage or discourage employee discussions of how their decisions might impact the moral rights of other people?

Finally, individual issues in business ethics are ethical questions raised about a particular individual or particular individuals within a company and their behaviors and decisions. These include questions about the morality of the decisions, actions, or character of an individual. An example would be the question of whether Vandivier’s decision to participate in writing a report on the A7-D brake, which he believed was false, was morally justified. A second example would be the question of whether it was moral for Merck’s chair, Dr. P. Roy Vagelos, to allow his researchers to develop a drug that would probably not generate any profits.
It is helpful when analyzing the ethical issues raised by a concrete situation or case to sort out the issues in terms of whether they are systemic, corporate, or individual issues. Often, the world presents us with decisions that involve a large number of extremely complicated interrelated kinds of issues that can cause confusion, unless the different kinds of issues are first carefully sorted out and distinguished from each other. Moreover, the kinds of solutions that are appropriate for dealing with systemic or corporate issues are not the same as the kinds of solutions that are appropriate for dealing with individual issues. If a company is trying to deal with a systemic issue—such as a government culture that permits bribery—then the issue must be dealt with on a systemic level; that is, it must be dealt with through the coordinated actions of many different social groups. On the other hand, corporate ethical issues can be solved only through corporate or company solutions. If a company has a culture that encourages moral wrongdoing, for example, then changing that culture requires the cooperation of the many different people that make up the company. Finally, individual ethical issues need to be solved through individual decisions and actions, and, perhaps, individual reform.

So what happened after Searle Lawson and Kermit Vandivier turned in their report and the U.S. Air Force put the Goodrich brakes on planes flown by their test pilots? Lawson was sent as Goodrich’s representative to Edwards Air Force Base in California where the test flights took place. There, he watched as the brakes caused several near crashes when the pilots tried to land the planes. In one case, he saw an airplane go skidding down the runway when the pilot’s braking produced such intense heat inside the brake that its parts fused together and the wheels locked up. Surprisingly, none of the pilots were killed. When Lawson returned home, both he and Vandivier quit and notified the F.B.I. of what had been going on; this was their way of dealing with the individual issues their actions had raised. A few days later, Goodrich announced that it was replacing the small brake with a larger five-disk brake at no extra charge to the U.S. government, and in this way they tried to deal with the corporate issues the brake incident had created. About a year later, Lawson and Vandivier came before the U.S. Congress and testified about their experiences at Goodrich. Shortly thereafter, the U.S. Department of Defense changed the way it let companies test equipment so that it became harder for companies to submit fraudulent reports. These changes were responses to a key systemic issue that became obvious once the truth came out.

Applying Ethical Concepts to Corporations

The statement that business ethics applies ethical or moral concepts to corporate organizations raises a puzzling issue. Can we really say that the acts of organizations are moral or immoral in the same way that the actions of human individuals are? Can we say that corporations are morally responsible for their acts in the same sense that individuals are morally responsible for what they do? Or must we say that it makes no sense to apply moral terms to organizations as a whole, but only to the individuals who make up the organization? A few years ago, for example, employees of Arthur Andersen, an accounting firm, were caught shredding documents potentially proving that Arthur Anderson accountants had helped Enron hide its debt through the use of several accounting tricks. The U.S. Justice Department then charged the now-defunct firm of Arthur Andersen with obstruction of justice, instead of charging the employees who shredded the documents. Critics afterward claimed that the U.S. Justice Department should have charged the individual employees of Arthur Andersen, not the company, because “Companies don’t commit crimes, people do.” Can moral notions like responsibility, wrongdoing, and obligation be applied to groups such as corporations, or are individuals the only real moral agents?
Two views have emerged in response to this question. At one extreme, is the view of those who argue that if we can say that something acted and that it acted intentionally, then we can say that thing is a “moral agent”; that is, it is an agent capable of having moral rights and obligations and being morally responsible for its actions, just like humans. The argument for this view goes like this: We can clearly say that corporations engage in actions and that they carry out those actions intentionally. Companies, for example, can “merge” together, make contracts, compete against other companies, and make products. And these things do not just happen: companies seem to do these things “intentionally.” But if an agent can act intentionally, then it can be morally responsible for its actions and it can be blamed when it does what is morally wrong. It follows, therefore, that corporations are “morally responsible” for their actions, and that their actions are “moral” or “immoral” in exactly the same sense as those of an individual. The major problem with this argument, however, is that organizations do not seem to “act” or “intend” in the same sense that people do. Unlike individuals, organizations have no minds to form “intentions” and are conscious of neither pain nor pleasure nor anything else; and unlike individuals organizations do not act on their own but instead humans must act for them.

At the other extreme, is the view of those who hold that it makes no sense to hold companies “morally responsible” or to say that they have “moral” duties. These people argue that business organizations are the same as machines whose members must blindly conform to formal rules that have nothing to do with morality. Consequently, it makes no more sense to hold organizations “morally responsible” for failing to follow moral standards than it makes to criticize a machine for failing to act morally. But the major problem with this second view is that, unlike machines, at least some of the members of organizations usually know what they are doing and are free to choose whether to follow the organization’s rules or even to change these rules. When an organization’s members collectively, but freely and knowingly pursue immoral objectives, it ordinarily makes good sense to say that the actions they performed on behalf of the corporation are “immoral” and that the organization is “morally responsible” for these immoral actions.

Which of these two views is correct? Perhaps neither is correct. The underlying difficulty with which both views are trying to struggle is this: Although we say that corporate organizations “exist” and “act” like individuals, they obviously are not human individuals. Yet, our moral categories are designed to deal primarily with human individuals who feel, reason, and deliberate, and who act on the basis of their own feelings, reasons, and deliberations. So, how can we apply these moral categories to corporate organizations and their “acts”? We can see our way through these difficulties if we first note that corporate organizations and their acts depend on human individuals. Because corporate acts originate in the choices and actions of human individuals, it is these individuals who are the primary bearers of moral duties and responsibility. Human individuals are responsible for what the corporation does because corporate actions flow wholly out of their decisions and behaviors. If a corporation acts wrongly, it is because of what some individual or individuals in that corporation chose to do; if a corporation acts morally, it is because some individual or individuals in that corporation chose to have the corporation act morally. As several law courts have held, the idea that the actions of a corporation are the actions of some “person” who is separate from the humans who carry out those actions, is a “legal fiction.” This fiction is set aside (by “piercing the corporate veil”) when justice requires that those humans who really carried out the actions of the corporation should be held responsible for injuries “the corporation” caused.

Nonetheless, it makes perfectly good sense to say that a corporate organization has moral duties and that it is morally responsible for its acts. However, organizations...
have moral duties and are morally responsible in a secondary or derivative sense. A corporation has a moral duty to do something only if some of its members have a moral duty to make sure it is done. And a corporation is morally responsible for something only if some of its members are morally responsible for what happened (i.e., they acted with knowledge and of their own free will—topics we will discuss later).

The central point is that when we apply the standards of ethics to business, we must not let the fiction of “the corporation” obscure the fact that human individuals control what the corporation does. Consequently, these human individuals are the primary carriers of the moral duties and moral responsibilities that we attribute in a secondary sense to the corporation. This is not to say, of course, that the human beings who make up a corporation are not influenced by each other and by their corporate environment. Corporate policies, corporate culture, and corporate norms all have an enormous influence on the behavior of corporate employees. However, a corporation’s policies, culture, and norms do not make the employee’s choices for him (or her) and so they are not responsible for the actions of that employee. We will return to this issue when we discuss moral responsibility toward the end of this chapter.

Objections to Business Ethics

We have described business ethics as the process of rationally evaluating our moral standards and applying them to business situations. However, many people raise objections to the very idea of applying moral standards to business activities. In this section, we address some of these objections and also look at what can be said in favor of bringing ethics into business.

Occasionally people object to the view that ethical standards should be applied to the behavior of people in business organizations. Persons involved in business, they claim, should single-mindedly pursue the financial interests of their firm and not side-track their energies or their firm’s resources into “doing good works.” Three different kinds of arguments are advanced in support of this view.

First, some have argued that in perfectly competitive free markets, the pursuit of profit will by itself ensure that the members of society are served in the most socially beneficial ways. 28 To be profitable, each firm has to produce only what the members of society want and has to do this by the most efficient means available. The members of society will benefit most, then, if managers do not impose their own values on a business, but instead devote themselves to the single-minded pursuit of profit and thereby to producing efficiently what the members of society value.

Arguments of this sort conceal a number of assumptions that require a much lengthier discussion than we can provide at this stage. Because we examine many of these claims in greater detail in the chapters that follow, here we only note some of the more questionable assumptions on which the argument rests. 29 First, most industrial markets are not “perfectly competitive” as the argument assumes. To the extent that firms do not have to compete, they can maximize profits despite inefficient production. Second, the argument assumes that any steps taken to increase profits will necessarily be socially beneficial. In fact, however, several ways of increasing profits actually injure society such as: allowing harmful pollution to go uncontrolled, deceptive advertising, concealing product hazards, fraud, bribery, tax evasion, price fixing, and so on. Third, the argument assumes that, by producing whatever the buying public wants (or values), firms are producing what all the members of society want. But the wants of large segments of society (the poor and disadvantaged) are not necessarily met when companies produce what buyers want, because these segments of society cannot participate fully in the marketplace. Fourth, the argument is essentially making a normative judgment (“managers should
devote themselves to the single-minded pursuit of profits”) on the basis of some unspoken and unproved moral standard (“people should do whatever will benefit those who participate in markets”). Thus, although the argument tries to show that ethics does not matter, it assumes an unproved ethical standard to show this. And the standard does not look very reasonable.

A second kind of argument sometimes advanced to show that business managers should single-mindedly pursue the interests of their firms and should ignore ethical considerations is embodied in what Alex C. Michales called the “loyal agent’s argument.” The argument can be paraphrased as follows:

1. As a loyal agent of his or her employer, the manager has a duty to serve the employer as the employer would want to be served (if the employer had the agent’s expertise).
2. An employer would want to be served in whatever ways will advance his or her interests.
3. Therefore, as a loyal agent of the employer, the manager has a duty to serve the employer in whatever ways will advance the employer’s interests.

Unethical managers have often used this argument to justify unethical conduct. For example, in 2005, Scott Sullivan, former finance executive for WorldCom, was accused of running an $11 billion accounting fraud that destroyed the retirement money thousands of employees had saved. Sullivan’s defense was that his boss, Bernie Ebbers, had ordered him to “hit the numbers.” Sullivan obeyed although, he says, he raised an objection: “I told Bernie, ‘This isn’t right.’” Betty Vinson, a former WorldCom accounting executive, defended her part in the fraud by pleading that Sullivan had ordered her to “adjust” the books to hide the company’s poor financial state from investors. Both Sullivan and Venison thought that loyal obedience to their employer justified ignoring the fact, which both admitted they knew, that what they were doing was wrong. Notice that if in the Loyal Agent Argument, we replace employer with government, and manager with officer, we get the kind of argument that Nazi officers used after World War II to defend their murder of about 16 million Jews and others that Hitler’s government labeled “undesirables.” When they were captured and brought to trial, the Nazi officers repeatedly defended their actions by claiming: “I had to do it because I had a duty to serve my government by following its orders.”

It takes only a little reflection to realize that the loyal agent’s argument rests on questionable assumptions. First, the argument tries to show (again) that ethics does not matter by assuming an unproved moral standard (“the manager should serve the employer in whatever way the employer wants to be served”). But there is no reason to assume that this moral standard is acceptable as it stands and some reason to think that it would be acceptable only if it were suitably qualified (e.g., “the manager should serve the employer in whatever moral and legal way the employer wants to be served”). Second, the loyal agent’s argument assumes that there are no limits to the manager’s duties to serve the employer, when in fact such limits are an express part of the legal and social institutions from which these duties arise. An agent’s duties are defined by what is called the law of agency (i.e., the law that specifies the duties of persons—“agents”—who agree to act on behalf of another party—the “principal”). Lawyers, managers, engineers, stockbrokers, and so on all act as agents for their employers in this sense. By freely entering an agreement to act as someone’s agent, then, a person accepts a legal (and moral) duty to serve the client loyally, obediently, and in a confidential manner as specified in the law of agency. Yet, the law of agency states that “in determining whether or not the orders of the [client] to the agent are reasonable … business or professional ethics are to be considered,” and “in no
event would it be implied that an agent has a duty to perform acts which are illegal
or unethical.” 34 The manager’s duties to serve the employer, then, are limited by
the constraints of morality, because it is with this understanding that the duties of
a loyal agent are defined. Third, the loyal agent’s argument assumes that if a man-
ger agrees to serve an employer, then this agreement somehow justifies whatever
the manager does on behalf of his employer. However, this assumption is false: An
agreement to serve an employer does not automatically justify doing wrong on his
or her behalf. If it is wrong for me knowingly to put people’s lives at risk by selling
them defective products, then it is still wrong when I am doing it for my employer.
Agreements do not change the moral character of wrongful acts nor does the argu-
ment “I was following orders” justify them.

A third kind of objection is sometimes made against bringing ethics into business.
This is the objection that to be ethical it is enough for businesspeople to follow the law: If
it is legal, then it is ethical. For example, the managers at the financial company Goldman
Sachs recently were accused of helping Greece hide loans larger than European Union
rules allowed by disguising the loans as currency exchanges that legally did not have to be
disclosed as debt. Greece’s debt eventually got so huge that in 2010, it threw Greece
and then the entire European Union into a financial crisis. Goldman Sachs’ managers
were accused of behaving unethically because they helped Greece hide debt that was more
than it could handle. But the managers excused themselves with the statement that “these
transactions were consistent with European principles [laws] governing their use and ap-
plication at the time.” 35 Since it was legal, they were saying, it was ethical.

It is wrong, however, to see ethics as no more than what the law requires. It is
true that some laws require behavior that is the same as the behavior required by our
moral standards. Examples of these are laws that prohibit murder, rape, theft, fraud,
and so on. In such cases, law and morality coincide, and the obligation to obey such
laws is the same as the obligation to be moral. However, law and morality do not
completely overlap. Some laws have nothing to do with morality because they do not
involve serious matters. These include parking laws, dress codes, and other laws cov-
ering similar matters. Other laws may even violate our moral standards so that they
are actually contrary to morality. Our own pre-Civil War slavery laws, for example,
required us to treat slaves like property, and the laws of Nazi Germany required anti-
Semitic behavior. The laws of some Arab countries today require that businesses dis-
 criminate against women and Jews in ways that most people would say are clearly
immoral. So it is clear that ethics is not simply following the law.

This does not mean, of course, that ethics has nothing to do with following the
law. 36 Many of our moral standards have been incorporated into the law because enough
of us feel that these moral standards should be enforced by the penalties of a legal sys-
tem. On the other hand, laws are sometimes removed from our law books when it be-
comes clear that they violate our moral standards. Our moral standards against bribery,
for example, were incorporated into the Foreign Corrupt Practices Act, and only a few
decades ago it became clear that laws permitting job discrimination—like earlier laws
permitting slavery—were blatantly unjust and had to be changed. Morality, therefore,
has shaped and influenced many of the laws we have.

Moreover, most ethicists agree that all citizens have a moral obligation to obey
the law so long as the law does not require clearly unjust behavior. This means that,
in most cases, it is immoral to break the law. Tragically, the obligation to obey the law
can create terrible conflicts when the law requires something that the businessperson
knows or believes is immoral. In such cases, a person will be faced with a conflict
between the obligation to obey the law and the obligation to obey his or her con-
science. Such conflicts are not unusual. In fact you, the reader, likely will have to deal
with such a conflict at some point in your business life.

Quick Review 1.6
Arguments Against Ethics in Business
- In a free market economy, the pursuit of profit will ensure maximum social
  benefit so business ethics is not needed.
- A manager’s most important obligation is loyalty to the company regardless of ethics.
- So long as companies obey the law they will do all that ethics requires.
The Case for Ethics in Business

We have looked at some arguments that try to show that ethics should not be brought into business. Is there anything to be said for the other side—that ethics should be brought into business? Offhand, it would appear that ethics should be brought into business simply because ethics should govern all voluntary human activities and business is a voluntary human activity. There does not seem to be anything special about business that would prevent us from applying the same standards of ethics to business activities that should be applied to all voluntary human activities.

It has been pointed out, in fact, that a business cannot exist unless the people involved in the business and its surrounding society adhere to some minimal standards of ethics. First, any individual business will collapse if all of its managers, employees, and customers come to think that it is morally permissible to steal from, lie to, or break their agreements with the company. Because no business can exist entirely without ethics, every business requires at least a minimal adherence to ethics on the part of those involved in the business. Second, all businesses require a stable society in which to carry on their business dealings. Yet, the stability of any society requires that its members adhere to some minimal standards of ethics. In a society without ethics, as the philosopher Hobbes once wrote, distrust and unrestrained self-interest would create “a war of every man against every man,” and in such a situation, life would become “nasty, brutish, and short.” The impossibility of conducting business in such a society—one in which lying, theft, cheating, distrust, and unrestrained self-interested conflict became the norm—is shown by the way in which business activities break down in societies torn by strife, conflict, distrust, and civil war. Because businesses cannot survive without ethics, then it is in the best interests of business to promote ethical behavior both among its own members as well as within its larger society.37

Is there any evidence that ethics is consistent with what most people see as the core of business: the pursuit of profit? To begin with, there are many examples of companies in which good ethics has existed side-by-side with a history of profitability. Companies that have combined a good history of profit with consistently ethical behavior include Intel, Timberland, Hewlett-Packard, Cisco Systems, Levi Strauss, General Mills, Patagonia, Kimberly-Clark, Interface International, and Starbucks Coffee.38 But many chance factors affect profitability (overcapacity in a particular industry, recessions, weather patterns, interest rates, changing consumer tastes, etc.). Consequently, these companies may be nothing more than the few companies in which ethics by chance happened to coincide with profits for a period of time. Is there any evidence that ethics in business is helpful to business? That is, what can be said for the proposition that good ethics is also good business?

Consider that when two people have to deal with each other repeatedly, it makes little sense for one person to inflict wrongs upon the other, especially when the person who is wronged can later retaliate against the person who wronged him or her. Now business interactions with employees, customers, suppliers, and creditors are repetitive and ongoing. If a business tries to take advantage of employees, customers, suppliers, or creditors through unethical behavior today, then they will likely find a way to retaliate against the business when the business has to work with them again tomorrow. The retaliation may take a simple form, such as refusing to buy from, refusing to work for, or refusing to do business with the unethical party. Or retaliation may be more complex, such as sabotage, getting others to boycott the unethical business, or getting even by inflicting other kinds of costs on the business. A business can sometimes, even often, get away with unethical behavior. In the long run, however, if interactions with others are repeated, and retaliation is possible, unethical behavior can impose heavy costs on the business. Ethical behavior, on the other hand, can set
the stage for mutually beneficial interactions with others. Unethical behavior in business tends to be a losing proposition because it undermines the long-term cooperative relationships with customers, employees, and community members on which business success ultimately depends.

There is, in fact, a lot of research that shows that unethical behavior tends to generate harmful reprisals, while ethical treatment of people tends to produce cooperative behavior. Several studies have shown that most people so value ethical behavior that they will punish people when they see them behaving unethically and reward those who are perceived as ethical, even at some cost to themselves. In one set of psychology experiments, for example, the experimenter paired up people and gave the first member of each pair $100 to divide between himself and the second member in any way the first member wanted to divide it. The second member of the pair, however, got to decide whether they would both keep the money or would both just return it all back to the experimenter. Perhaps, you can already guess what happened. Whenever the first member divided the money unequally by taking a lot more for himself and giving the second member just a little—five dollars or ten dollars, for example—the second member would usually say they both had to return all the money to the experimenter, even though this meant losing the amount he would have received. But when the first member divided the money up more or less equally, the second member decided they should both keep the money. When they were interviewed afterwards, the second member of each pair almost always said that a very unequal division of the money was morally wrong, and so he had punished the wrongdoer by forcing the wrongdoer to return his money, although this meant they would also lose the money they would have received. But when the money was divided up equally, this seemed morally right to the second member and so he decided they could keep the money.

There is a lot more research in social psychology showing that people in all kinds of social situations respond to perceived injustices with moral anger—whether the injustice is directed against themselves or others—and this anger motivates them to attempt to restore justice by punishing the party that inflicted the injustice. Employees who feel their company’s decision-making processes are unjust will exhibit higher absenteeism, higher turnover, lower productivity, and demand higher wages. Customers will turn against a company if they perceive a gross injustice in the way it conducts its business and will be less willing to buy its products. Customers and employees who feel a company has behaved unethically, for example, now sometimes start critical web sites such as complaintsboard.com, ripoffreport.com, pissedconsumer.com, and screwedcentral.com. On the other hand, when people feel that an organization is treating people fairly, they will reward it with loyalty and commitment. For example, when employees feel that an organization’s decision-making processes are just, they exhibit lower levels of turnover and absenteeism, show higher levels of trust and commitment to the company and its managers, and demand lower wages. When employees believe an organization is just, they are more willing to follow the organization’s managers, do what managers say, and tend to see managers’ leadership as legitimate. In short, unethical behavior breeds reprisals while ethical behavior breeds cooperation.

What about the proposition that companies that are ethical are more profitable than those that are not? Is there any evidence that supports the view that ethical companies are more profitable than unethical ones? There are many difficulties involved in trying to study whether ethical companies are more profitable than unethical ones. There are many different ways of defining ethical, many different ways of measuring profit, many different ways of deciding which actions count as the actions of the company, many different factors that can affect a company’s profits, and many different
“ethical” dimensions along which companies can be compared. Despite these difficulties, several studies have tried to discover whether profitability is correlated with ethical behavior. The results have been mixed. Although the majority of studies have found a positive relationship between socially responsible behavior and profitability, some have found no such relationship. No studies, however, have found a negative correlation, which would have indicated that ethics is a drag on profits. Other studies have looked at how socially responsible firms perform on the stock market and have concluded that ethical companies provide higher returns than other companies. Together, all these studies suggest that, by and large, ethics does not detract from profit and seems to contribute to profits.

There are, then, good reasons to think that ethics should be brought into business. Taken together, the arguments above—some philosophical and some more empirical—suggest that businesses are shortsighted when they fail to take the ethical aspects of their activities into consideration.

**Business Ethics and Corporate Social Responsibility**

Business ethics is sometimes confused with “corporate social responsibility” or “CSR.” Although the two are related, they are not quite the same. It is important to understand how they are different as well as how they are related to each other. We will begin by clarifying what corporate social responsibility is because this will help us understand how business ethics and corporate social responsibility are related. Moreover, theories of corporate social responsibility provide answers to the important question: What is the purpose of business?

The phrase “corporate social responsibility” refers to a corporation’s responsibilities or obligations toward society. There is some disagreement about what those obligations include. Do companies have a responsibility to donate to charities or to give their employees higher wages and customers safer products? Or are they obligated to maximize profits for their shareholders or stockholders?

At one extreme is the view of the late economist Milton Friedman. Friedman argues that in a “free enterprise, private-property system,” corporate executives work for the “owners” of the company, and today these “owners” are the company’s shareholders. As their employee, the executive has a “direct responsibility” to run the company “in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.”

According to Friedman’s shareholder view of corporate social responsibility, a manager has no right to give company money to social causes when doing so will reduce shareholder’s profits, because that money does not belong to the manager but to shareholders. Of course, managers can, and should, pay higher wages to employees,
BASIC PRINCIPLES

or provide better products for customers, or give money to local community groups or other causes, if doing so will make more profits for shareholders. For example, higher wages might make employees work harder, better products may increase customer sales, and giving to the local community may lead to lower taxes or better city services. But if using company resources to benefit employees, customers, or the community reduces the profits that would have gone to shareholders, then doing so is wrong because those resources belong to stockholders and should be used as they want them to be used, i.e., to make them more money. It is always wrong for managers to use company resources to help others at the expense of shareholders.

Although Friedman does not think managers should use company resources to benefit others at the expense of shareholders, he does think that companies ultimately provide great benefits for society. He argues that when a company tries to maximize stockholders' profits in a “free-enterprise” economy, competition will force it to use resources more efficiently than competitors, to pay employees a competitive wage, and to provide customers with products that are better, cheaper, and safer than those of competitors. So when managers aim at maximizing profits for stockholders in competitive markets, the companies they run will end up benefitting society.

Friedman has had many critics. Some object to his claim that the manager or executive is the employee of shareholders. Legally, these critics point out, the executive is the employee of the corporation and so the executive is legally required to serve the interests of the corporation—his true employer—not of its shareholders. Others have criticized Friedman’s claim that stockholders are the “owners” of the corporation and that the corporation is their “property.” Critics point out that shareholders only own stock and this gives them a few limited rights, such as the right to elect the board of directors, the right to vote on major company decisions, and the right to whatever remains after the corporation goes bankrupt and pays off its creditors. But shareholders do not have all the other rights that true owners would have and so they are not really owners of the corporation. A third objection criticizes his claim that the executive’s core responsibility is to run the corporation as stockholders want it to be run. In reality the executive probably has no idea how stockholders want the company to be run, and legally, anyway, he is required to run the company in ways that serve many other interests (including employee interests and consumer interests) besides those of stockholders. Finally, some have argued against Friedman’s view that by seeking to maximize shareholder returns, the corporation will best serve society. Sometimes competitive forces fail to steer companies in a socially beneficial way and, instead, lead them to act in a socially harmful manner. For example, a company might knowingly pollute a neighborhood with substance that is not yet illegal, in order to save the costs of reducing its pollution and thereby be more competitive.

A very different view of corporate social responsibility is what is now called “stakeholder theory.” According to Edward Freeman and David Reed, the two scholars who pioneered this view, a stakeholder is “any identifiable group or individual who can affect the achievement of an organization’s objectives or who is affected by the achievement of an organization’s objectives.”49 In other words, a stakeholder is anyone the corporation can harm, benefit, or influence, as well as anyone that can harm, benefit, or influence the corporation. A stakeholder, in short, is anyone who has a “stake” in what the company does.

For example, General Motors impacts the lives of its customers when it decides how much safety it will build into its cars, it impacts employees when it sets salaries, it impacts the local community when it shuts down a plant, and it impacts its stockholders when it increases their dividends. On the other hand, government can impact General Motors through the laws and regulations it passes, creditors can impact it by raising their interest rates or calling back a loan, and suppliers can impact it by raising...
their prices or lowering the quality of the car parts they provide. General Motors’ stakeholders, then, include customers, employees, local communities, stockholders, government, creditors, and suppliers. Of course, the influences between the company and its stakeholders can go both ways. For example, although General Motors influences its customers and employees, customers can also influence General Motors by refusing to buy its cars and employees can impact General Motors by going on strike. Other groups also are sometimes able to influence General Motors. For example, environmental activists or the media can impact General Motors by organizing demonstrations or by reporting on a safety defect of General Motors’ cars. Thus, activist organizations, the media, and other interest groups can also become stakeholders of General Motors.

Unlike Friedman’s shareholder view, which says the corporation should be run for the benefit only of its shareholders, “stakeholder theory” says it should be run for the benefit of all stakeholders. According to stakeholder theory, a manager should take all stakeholder interests into account when making decisions. Managers should try to “balance” the interests of stakeholders so each stakeholder gets a fair share of the benefits the corporation produces. The manager, then, has the responsibility of running the company in a way that will best serve the interests of all stakeholders.

Notice that stakeholder theory does not claim that managers should not try to make a profit; it does not even claim that managers should not try to maximize profits. The claims of stakeholder theory are about who should get the profits. Friedman’s shareholder view says that the manager should try to maximize what goes to the stockholder, which means it should try to minimize what goes to other stakeholders (except, of course, when giving some stakeholders more would make even more profits for stockholders). Stakeholder theory, on the other hand, says that the manager should give stockholders a fair share of profits, but in a way that allows all other stakeholders to also get their fair share. This may mean, for example, investing in better working conditions for employees or in safer products for consumers, or in reducing pollution for the local community, even if this reduces the share of profits stockholders would get. Stakeholder theory, then, rejects Friedman’s view that resources should not be used to benefit other stakeholders at the expense of shareholders.

Two main kinds of arguments support the “stakeholder” view of corporate social responsibility: “instrumental” arguments and “normative” arguments. Instrumental arguments claim that being responsive to all of its stakeholders is in the best interests of the corporation even though it may not be in the best interests of shareholders. The idea here is that if a company takes the interests of all its stakeholders into account, those stakeholders will be favorably disposed to do their part to support the company and its interests. Treating employees decently while paying them good salaries, for example, will make employees more loyal to the company, while treating them poorly may lead to shirking or even destructive behavior. Similarly, when a company is responsive to environmentalists or other activists, these groups are less likely to engage in activities that can damage the company’s image or its reputation. Yet paying employees higher wages and investing in meeting environmentalists’ demands may force a company to reduce shareholder dividends. In short, instrumental arguments for stakeholder theory claim that being responsive to all stakeholders is good for the business even though it may reduce the profits shareholders end up with.

Normative arguments for stakeholder theory claim that the company has a moral or ethical obligation to be responsive to all its stakeholders. One such argument, developed by Robert Phillips, is based on the “principle of fairness.” The principle of fairness says that if a group of people works together to provide some benefits at some cost to themselves, then anyone who takes advantage of those benefits has an obligation to contribute his or her share to the group. How does the principle of fairness
support stakeholder theory? Stakeholder theory claims that a company’s stakeholders work together to secure the conditions the company needs to operate successfully, and they do this at some cost to themselves. Communities contribute roads, a water system, a legal system, security, etc.; employees provide labor and expertise; investors provide capital, and so on. A company takes advantage of the benefits stakeholders provide at some cost to themselves, and so the company in turn has an obligation to contribute its part to the group. It does this by being responsive to the needs and interests of these various stakeholders, just as they each in their own way have been responsive to the company’s needs.

Which of these two views is correct: stakeholder theory or shareholder theory? Today, many businesses accept stakeholder theory, and most of the fifty U.S. states have passed laws that recognize business’ obligations to its many stakeholders even at the expense of stockholder interests. But readers will have to decide for themselves which theory makes the most sense and seems most reasonable. The two theories are critical to one’s view of the important question: What is the purpose of business? Shareholder theory says the ultimate purpose of business is to serve the interests of stockholders and by doing so businesses in competitive markets will generally end up providing significant benefits to society. The stakeholder view says that the ultimate purpose of business is to serve the interests of all stakeholders and thereby the interests of all stakeholders are explicitly addressed even when competitive markets fail to secure their interests. We cannot discuss these important questions any farther. Our aim here is only to explain corporate social responsibility so that we can explain how corporate social responsibility is related to business ethics.

So how are business ethics and corporate social responsibility related? Being ethical, according to most scholars, is one of the obligations companies owe to society. In this respect, business ethics is a part of corporate social responsibility. In what has become a widely accepted description of the kinds of social responsibilities companies can have, for example, Archie Carroll writes: “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations . . . ” Corporate social responsibility, then, is the larger more inclusive notion and business ethics is just one part of this larger notion. In addition to its ethical obligations, a company’s corporate social responsibility includes those legal obligations, economic contributions, and those “discretionary” or philanthropic contributions society expects from companies. Notice that both the shareholder view and the stakeholder view can accept this way of defining what corporate social responsibility includes. For example, Friedman explicitly says that a company should live up to the ethical and legal expectations of society, that by pursuing shareholder profits it will make the greatest economic contribution to society, and that it should make whatever other discretionary contributions it needs to make so that society will enable it to operate profitably. Stakeholder theory says that companies should be responsive to all its stakeholders and that would include making the economic and discretionary contributions society expects, as well as behaving ethically and legally toward its stakeholders.

But the relation between ethics and corporate social responsibility is more complicated than we have so far suggested. As we have seen, the arguments underlying the various views of business’s obligations to society—both the arguments that say businesses are obligated only to stockholders, and those that say they have obligations to all stakeholders—are ethical arguments. Friedman, for example, holds that owners have the right to say how the corporation should be run because they own the corporation and so managers have the obligation to do what stockholders want. And the normative argument for stakeholder theory, as we saw, says that fairness implies that business has obligations to all stakeholders. All of these concepts—rights, obligations,
and fairness—are ethical concepts, so ethics is not only part of a company’s social responsibilities. Ethics also provides the basic normative reasons for corporate social responsibility. Paradoxically, then, ethics is one of business’ social responsibilities, but business has these responsibilities to society because it is what ethics demands.

1.2 Ethical Issues in Business

Technology and Business Ethics

Technology consists of all those methods, processes, and tools that humans invent to manipulate and control their environment. To an extent never before realized in history, contemporary businesses and societies are being continuously and radically transformed by the rapid evolution of new technologies that raise new ethical issues for business.

This is not the first time that new technologies have had a revolutionary impact on business and society. Several thousand years ago, during what is sometimes called the Agricultural Revolution, humans developed the farming technologies that enabled them to stop relying on foraging and on the luck of the hunt and to develop instead, farming methods that provided a reasonably constant and consistent supply of food. The invention of irrigation, the harnessing of water and wind power, and the development of levers, wedges, hoists, and gears during this period eventually allowed humans to accumulate more goods than they could consume, and out of this surplus grew trade, commerce, and the first businesses. And with commerce came the first issues related to business ethics such as being fair in trading, setting a just price, and using true weights and measures.

In the eighteenth century, the technology of the Industrial Revolution again transformed Western society and business, primarily through the introduction of electromechanical machines powered by fossil fuels such as the steam engine, automobile, railroad, and cotton gin. Prior to the Industrial Revolution, most businesses were small organizations that operated in local markets and were managed by owners overseeing relatively few workers who assembled goods by hand. The Industrial Revolution brought with it new forms of machine production that enabled businesses to make massive quantities of goods to ship and sell in national markets. These changes, in turn, required large organizations to manage the enormous armies of people that had to be mobilized to process the output of these machines on long assembly lines in huge factories. The result was the large corporation that came to dominate our economies and that brought with it a host of new ethical issues, including the possibilities of exploiting the workers who labored at the new machines, manipulating the new financial markets that financed these large enterprises, and producing massive damage to the environment.

New technologies developed in the closing decades of the twentieth century and the opening years of the twenty-first century are again transforming society and business and creating the potential for new ethical problems. Foremost among these developments are the revolutions in biotechnology and in what is sometimes called information technology, including not only the use of powerful and compact computers, but also the development of the Internet, wireless communications, digitalization, and numerous other technologies that have enabled us to capture, manipulate, and move information in new and innovative ways. These technologies have spurred a number of changes, such as increasingly rapid globalization and the decreasing importance of distance; the rise of new ways to communicate and transfer any kind of media—movies, newspapers, music, books, mail—instantaneously from one place to another; and the creation of vast new electronic databases to capture, store, and use massive amounts of information and personal data.
another; the acceleration of change as product life cycles get shorter and revolutionary new products are invented and marketed ever more quickly; and the ability to create new life forms and new mechanisms whose benefits and risks are unpredictable. To cope with these rapid changes, business organizations have had to become smaller, flatter, and more nimble. Some have completely refashioned themselves as they have entered the world of e-commerce (buying and selling goods and services over the Internet) and left their brick-and-mortar operations behind by transforming themselves into Web-based entities that exist largely in cyberspace, a term used to denote the existence of information on an electronic network of linked computer systems. These developments have forced companies to deal with a host of intriguing new ethical issues.

Almost all ethical issues raised by new technologies are related in one way or another to questions of risk: Are the risks of a new technology predictable? How large are the risks and are they reversible? Are the benefits worth the potential risks, and who should decide? Do those persons on whom the risks will fall know about the risk, and have they consented to bear these risks? Will they be justly compensated for their losses? Are the risks fairly distributed among the various parts of society, including poor and rich, young and old, future generations and present ones?

Many of the ethical issues new technologies have created—especially information technologies like the computer—are related to privacy. Computers enable us to collect detailed information on individuals on a scale that was never possible before (by tracking users on the Internet; gathering information on customers at cash registers; collecting information on credit card purchases; retrieving information from applications for licenses, bank accounts, credit cards, e-mail, monitoring employees working at computers, etc.). They have the power to quickly link this information to other databases (containing financial information, purchase histories, addresses, telephone numbers, driving records, arrest records, credit history, medical and academic records, memberships), and they can quickly sift, sort, or retrieve any part of this information for anyone who has access to the computer. Because these technologies enable others to gather such detailed and potentially injurious information about ourselves, many people have argued that they violate our right to privacy: the right to prohibit others from knowing things about us that are private.

Information technologies have also raised difficult ethical issues about the nature of the right to property when the property in question is information (such as computer software, computer code, or any other kind of data—text, numbers, pictures, sounds—that have been encoded into a computer file) or computer services (access to a computer or a computer system). Computerized information (such as a software program or digitized picture) can be copied perfectly countless times without in any way changing the original. What kind of property rights does one have when one owns one of these copies? What kind of property rights does the original creator of the information have and how does it differ from the property rights of someone who buys a copy? Is it wrong for me to make a copy without the permission of the original creator when doing so in no way changes the original? What, if any, harms will society or individuals suffer if people are allowed to copy any kind of computerized information at will? Will people stop creating information? For example, will they stop writing software and stop producing music? What kind of property rights does one have over computer systems? Is it wrong to use my company’s computer system for personal business, such as to send personal e-mail or to log onto web sites that have nothing to do with my work? Is it wrong for me to electronically break into another organization’s computer system if I do not change anything on the system but merely “look around”?

Computers have also aided in the development of nanotechnology, a new field that encompasses the development of tiny artificial structures only nanometers (billionths of a meter) in size.
(billionths of a meter) in size. Futurists have predicted that nanotechnology will enable us to build tiny structures that can assemble themselves into tiny computers or serve as diagnostic sensors capable of traveling through the bloodstream. But critics have raised questions about the potential harms posed by the release of nanoparticles into the environment. Greenpeace International, an environmental group, has suggested that nanoparticles could be harmful if accidentally inhaled by humans (carbon nanotubes, for example, have caused cancer in rats when inhaled) or if they carried toxic ingredients. In light of the potential risks, should businesses refrain from commercializing nanotechnology products?

Biotechnology has created yet another host of difficult ethical issues. Genetic engineering refers to a large variety of new techniques that let us change the genes in the cells of humans, animals, and plants. Genes, which are composed of deoxyribonucleic acid (DNA), contain the blueprints that determine what characteristics an organism will have. Through recombinant DNA technology, for example, the genes from one species can be removed and inserted into the genes of another species to create a new kind of organism with the combined characteristics of both species. Businesses have used genetic engineering to create and market new varieties of vegetables, grains, sheep, cows, rabbits, bacteria, viruses, and numerous other organisms. Bacteria have been engineered to consume oil spills and detoxify waste, wheat has been engineered to be resistant to disease, grass has been engineered to be immune to herbicides, and a French laboratory is said to have inserted the fluorescent genes from a jellyfish into a rabbit embryo that was born glowing in the dark just like the jellyfish. Is this kind of technology ethical? Is it wrong for a business to change and manipulate life in this way? When a company creates a new organism through genetic engineering, should it be able to patent the new organism so that it in effect owns this new form of life? Often the consequences of releasing genetically modified organisms into the world cannot be predicted. Engineered animals may drive out natural species, and engineered plants may poison wild organisms. The pollen of a species of corn that had been engineered to kill certain pests, for example, was later found to also be killing off certain butterflies. Is it ethical for businesses to market and distribute such engineered organisms throughout the world when the consequences are so unpredictable?

**International Issues in Business Ethics** We have so far discussed some of the main issues with which business ethics has had to deal during human history. But the issues we have talked about are the kinds of issues that for the most part, arise within the national borders of a single country. We will turn now to look at some of the business ethics issues that emerge in the international arena.

**Globalization and Business Ethics** Many of the most pressing issues in business ethics today are related to the phenomenon of globalization. Globalization refers to the way nations are becoming more connected so that goods, services, capital, knowledge, and cultural artifacts move across national borders at an increasing rate. Of course, for centuries people have moved and traded goods across national boundaries. Merchants have been carrying goods over the trading routes of Europe, Asia, and the Americas since our recorded history began. But the sheer volume of goods that are being moved and traded across national boundaries has grown almost exponentially since World War II, and it has transformed the face of our world. Globalization has resulted in a phenomenon that is familiar to anyone who travels outside their country: The same products, music, foods, clothes, inventions, books, magazines, movies, brand names, stores, cars, and companies that we are familiar with at home are available and enjoyed everywhere in the world. McDonald’s hamburgers and Kentucky Fried Chicken can be eaten on the sidewalks of Moscow, London, Beijing, Paris,
Tokyo, Jerusalem, or Bangkok. Great Britain’s *Harry Potter* novels are read by children and adults in India, Japan, China, Italy, and Germany. People of every nation know the same bands, the same songs, the same singers, the same actors, and the same movies that entertain Americans.

Multinational corporations are at the heart of this process of globalization and are responsible for much of the enormous volume of international transactions that take place today. A **multinational corporation** is a company that has manufacturing, marketing, service, or administrative operations in many different nations. Multinationals make and market their products in whatever nations offer manufacturing advantages and attractive markets. They draw capital, raw materials, and human labor from wherever in the world they are cheap and available. Virtually all of the 500 largest U.S. industrial corporations today are multinationals. General Electric, for example, which was founded by Thomas Edison and is headquartered in New York, has operations in more than 100 countries around the world and gets almost half of its revenues from outside the United States. It has metallurgy plants in Prague; software operations in India; product design offices in Budapest, Tokyo, and Paris; and assembly operations in Mexico.

Globalization has brought the world tremendous benefits. As multinationals like Nike, Motorola, General Electric, and Ford build factories and establish assembly operations in countries with low labor costs, they bring jobs, skills, income, and technology to regions of the world that were formerly underdeveloped, raising the standard of living in these areas and providing consumers everywhere with lower-priced goods. According to the World Bank, between 1981 and 2005—years during which globalization has been operating at top speed—the percentage of poor people in the developing world was cut in half, from 52 percent to 25 percent. Thus, globalization has helped millions of people emerge from poverty in countries such as China, India, Bangladesh, Brazil, Mexico, and Viet Nam. Between 1981 and 2005 (the most recent year for which figures are available) the number of people living on less than $1.25 per day in developing nations declined by 500 million. As a group, in fact, the economies of developing nations grew at about 5 percent per capita while developed nations such as the United States grew by only 2 percent.

Globalization has also enabled nations to specialize in producing and exporting those goods and services that they can produce most efficiently, and then trade for what they do not make. India has specialized in software production; France and Italy in fashion and footwear design; Germany in chemical production; the United States in computer hardware design; Mexico in television assembly; and many developing regions such as Central America and Southeast Asia have specialized in apparel, shoe, and other low-skill assembly operations. Such specialization has increased the world’s overall productivity, which in turn has made all participating nations better off than they would be if each nation tried to produce everything on its own.

But globalization has been blamed for inflicting significant harms on the world. Critics of globalization argue that while it has benefited developed nations that have high-value products to sell (such as high-tech products), many poorer nations that have only cheap agricultural products to trade have been left behind. Moreover, the World Bank reports, as globalization has spread, inequality has increased both between nations and within nations. And globalizing multinationals have brought Western culture everywhere through movies, books, songs, games, toys, television shows, electronic gadgets, dances, fast foods, brands, art, magazines, and clothes, driving out distinctive local cultures and traditions that are in danger of diminishing or disappearing altogether. Instead of eating their own traditional foods, for example, people everywhere eat McDonald’s hamburgers and fries. Instead of enjoying traditional forms of ethnic dancing, people everywhere go to movie theaters to watch *Avatar*, *Harry Potter*, and *Batman.*
Globalization is also charged with paving the way for multinationals to have a kind of mobility that critics say has had adverse effects. Multinationals can now pull their operations out of one country and insert them into another that offers cheaper labor, less stringent laws, or lower taxes. This ability to move operations from nation to nation, critics claim, enables the multinational to play one country off against another. If a multinational does not like one nation’s environmental, wage, or labor standards, for example, it can move or threaten to move to a country with lower standards. Critics claim this has created a “race to the bottom.” As countries lower their standards to attract foreign companies, the result is a global decline in labor, environmental, and wage standards. Some companies that have established assembly operations in developing nations, for example, have introduced sweatshop working conditions and exploitive wages. Moreover, when companies move their operations from one country to another in search of cheaper labor, they close down factories in their home countries, leaving thousands of workers there without jobs.

Critics also claim that multinationals sometimes import technologies or products into developing nations that cannot yet deal with their risks. Some chemical companies—for example, Amvac Chemical Corporation, Bayer, and BASF—have been accused of marketing toxic pesticides in developing nations whose farm workers do not know about, and cannot protect themselves against, the problems those chemicals can inflict on their health. The advertising campaigns of certain food companies—such as Nestle, Mead Johnson, and Danone—persuade new mothers in poor nations to spend their meager food budgets on infant formula powder. Yet in developing nations that do not have sanitary water supplies, new mothers will mix the powdered infant formulas with unsanitary water which, according to the World Health Organization, leads annually to diarrhea and death for more than 1.5 million newborns. Tobacco companies—such as Philip Morris, British American Tobacco, and Imperial Tobacco—have heavily marketed their cigarettes in developing nations whose populations do not have a good understanding of the long-range health costs of smoking.

Globalization, then, is a “mixed bag.” While it has brought tremendous economic benefits to many poor nations, it has done so at a price. And both the benefits and the costs of globalization are, to a large extent, due to the activities of multinationals.

Differences Among Nations

Globalization has also forced companies to operate in nations whose laws, governments, practices, levels of development, and cultural understandings are sometimes much different from those with which the multinational’s managers are familiar. This creates significant dilemmas for their managers. For example, the laws that the managers of Dow Chemical Company are used to in the United States, are very different from the laws they find in Mexico and other host countries. Laws regulating workers’ exposure to workplace toxins and other safety hazards are stringent in the United States, whereas they are vague, lax, or altogether lacking in Mexico. Consumer product safety and labeling laws, which require careful quality controls, rigorous product tests, and warnings of risk in the United States, are very different in Mexico, which allows lower levels of quality control, much less testing of products, and fewer warnings directed at consumers. The environmental pollution laws of the U.S. government are strict and set at very high levels, whereas those of Mexico are virtually nonexistent or unenforced.

Even entire governments can be completely different from the kind of government managers are accustomed to in industrialized nations. Although the U.S. government has its shortcomings, it is responsive to the needs of its citizens for instance. The same cannot be said for the governments of many other nations. Some governments are so corrupt that their legitimacy is questionable. The former government of

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Differences Among Nations

- Include differences in laws, governments, practices, levels of development, cultural understandings
- Raise the question whether managers in foreign countries should follow local standards or their home standards.
Haiti, for example, was notoriously corrupt and consistently promoted the interests and wealth of a small group of government elites at the expense of the needs of the general population.

Managers also often find themselves in countries that are very undeveloped compared to their home country. Industrialized countries have relatively high levels of technological, social, and economic resources available, whereas the resources of poorer countries can be quite undeveloped. Technological sophistication, unions, financial markets, unemployment insurance, social security, and public education are widespread in more developed nations, but are lacking in some undeveloped countries. The lack of these things mean that managerial actions can affect people in undeveloped countries very differently from the way those same actions affect people in developed countries. Worker lay-offs in developing nations that do not provide unemployment insurance, for example, inflict greater pains on workers there than in the United States, which provides unemployment insurance (at least for a period of time). A warning fixed on a product label may be suitable when it is sold to educated consumers in Japan, but it may be inadequate when the same product is sold to illiterate consumers in a developing nation.

Moreover, the cultural views of some nations that managers of multinationals enter can be so different from their own that they misinterpret or misunderstand many of the behaviors they encounter there. In the United States, for example, it is considered to be a lie for a company to provide the government with income statements that materially understate the company’s actual earnings. In some periods of Italy’s history, however, it was accepted as a matter of course that all businesses would understate their annual earnings by one-third when they reported their taxes to the government. Knowing this, the government would automatically inflate each company’s income statements by one-third and levy taxes on this more accurate estimate, which companies willingly paid. Thus, because of a cultural practice that was understood both by the business community and the government, Italian companies did not actually lie to their government when they understated their income: What looked like a lie to an outsider was, in the cultural context, a clearly understood signal of a company’s true income.

When in a foreign country whose laws, government, level of development, and culture are significantly different from what the manager is used to, what should the manager of a multinational do? Some scholars have suggested that when operating in less developed countries, managers from developed nations should try to stick to the higher standards that are typical in their home countries. But this suggestion ignores the real possibility that introducing practices that have evolved in a developed country may do more harm than good in a less developed nation. For example, if an American company operating in Mexico pays local workers U.S. wages, it may draw all the skilled workers away from local Mexican companies that cannot afford to pay the same high salaries. Other scholars have gone to the opposite extreme and argued that multinationals should always follow local practices and laws. But going along with a local practice or law may be worse than trying to operate by the higher standards of a developed country. The lower environmental standards of Mexico, for example, may permit pollution levels that seriously harm the health of local residents. Moreover, the governments of many countries, as we have noted, are corrupt and their laws serve the interests of ruling elites and not the public interest.

It is clear, then, that both a blanket rule to always go along with local practices, as well as one that always tries to adhere to the higher standards of developed nations, are both inadequate. Instead, managers who want to operate ethically in foreign countries must judge each case as it comes along. When judging the ethics of a particular policy, practice, or action in a foreign country, they must take into account
the nature of the country’s laws, how corrupt and how representative its government is, what the country’s level of technological, social and economic development is, and what cultural understandings affect the meaning of the policy, practice, or action that is being judged. In some cases, going along with local practices may be what is right, while in other cases it may be better to adopt the standards found in more developed nations. And in some cases, managers may have to choose between staying in a country and going along with a local practice that is clearly and seriously evil, or doing what is right and leaving the country.

**Business and Ethical Relativism** There are certain cultural differences that create a special problem for managers. Managers of multinationals often find it hard to know what to do when they encounter *moral* standards that are different from the ones they personally hold and that are accepted in their home country. Nepotism and sexism, although condemned as morally wrong in the United States, for example, are accepted as a matter of course in some foreign business environments. The people of certain Arab societies hold that business bribery is morally acceptable, although Americans believe that it is immoral. What should a manager do when a government official in such a society asks for a bribe to perform some routine duty the official is supposed to provide for nothing? Or when the hiring department of a U.S. factory in Thailand seems to hire only relatives of those already working for the factory? Or when a group of South American managers refuse to accept a woman as a manager because they feel that women cannot be good managers?

The fact that different cultures have different moral standards, leads many people to adopt the theory of ethical relativism. **Ethical relativism** is the theory that there are no ethical standards that are true absolutely, i.e., that the truth of all ethical standards depends on (is relative to) what a particular culture accepts. Consequently, there are no moral standards that should be used to evaluate the ethics of everyone’s actions no matter what culture they belong to. Instead, the ethical relativist holds that a person’s action is morally right if it accords with the ethical standards accepted in that person’s culture, and is wrong if it violates the ethical standards accepted in that person’s culture. To put it another way: Ethical relativism is the view that, because different societies have different moral beliefs, there is no rational way of determining whether a person’s action is morally right (or wrong) other than by asking whether the members of the person’s own society believe it is morally right (or wrong).

The ethical relativist will say, for example, that it is wrong for a U.S. manager to engage in nepotism in the United States because everyone there believes that it is wrong, but it is not wrong for a person in Thailand, for example, to engage in nepotism there because people there do not see it as wrong. The ethical relativist would advise the manager of a multinational who works in a society whose moral standards are different from her own, that she should follow the moral standards prevalent in the society in which she works. Since moral standards differ and since there are no absolute standards of right and wrong, the best a manager can do is follow the old adage, “When in Rome, do as the Romans do.” But is ethical relativism a reasonable view to hold?

The ethical relativist is clearly right to claim that there are numerous practices that are judged immoral by people in one society that people of other societies believe are morally acceptable. Some examples of practices societies disagree about include polygamy, abortion, infanticide, slavery, bribery, homosexuality, racial and sexual discrimination, genocide, patricide, and the torture of animals. Yet critics of ethical relativism have pointed out that it does not follow that there are *no* moral standards which are binding on people everywhere. Although societies disagree about some moral standards, they agree on others. Critics of ethical relativism have argued, in fact, that there are certain
basic moral standards that the members of any society must accept if that society is to survive and if its members are to interact with each other effectively. Thus, all societies have norms against injuring or killing their own members, norms about using language truthfully among themselves, and norms against taking the goods that belong to other members of society. Moreover, anthropologists have found numerous moral values and norms that are universal, i.e., that all known human groups recognize. Among these universals are: the appropriateness of reciprocity, the appropriateness of cooperation, the prohibition of incest, the prohibition of rape, empathy, friendship, the difference between right and wrong, fairness, the requirement to compensate injuries, the goodness of courage, the requirement that parents care for their children, restrictions on some forms of violence, the prohibition of murder, the prohibition against breaking promises, the appropriateness of feeling guilt and shame for wrongdoing, the appropriateness of having pride for one’s achievements, and the requirement that actions one could control should be treated differently from those one could not control.

In addition, many apparent moral differences among societies turn out on closer examination to mask deeper underlying similarities. For example, anthropologists tell us that in some Alaskan Inuit societies it was morally acceptable for families to abandon their aged to die outdoors during times of hardship, whereas other Indian societies have felt that abandoning someone to freeze to death outdoors is akin to murder. Yet on closer examination, it can turn out that underlying this difference between Inuit society and other Indian societies is the same moral standard: the moral duty of ensuring the long-term survival of one’s family. In their harsh environment, Inuit people may have had no way of ensuring the family’s survival when food supplies ran short other than by abandoning their aged. Other Indian societies have believed that family survival required protecting the elders who carried within them the knowledge and experience the family needed. The differences between Inuits and other Indians is not due to a real difference in values, but is due, rather, to the fact that one and the same value can lead to two different moral judgments when the value is applied in two very different situations.

Other critics of ethical relativism have pointed out that when people have different moral beliefs about some issue, it does not follow that there is no absolute truth about that issue nor that all beliefs about it are equally acceptable. All that follows when two people or two groups have different beliefs is that at least one of them is wrong. For example, the late philosopher James Rachels points out:

The fact that different societies have different moral codes proves nothing. There is also disagreement from society to society about scientific matters: in some cultures it is believed that the earth is flat, and that disease is caused by evil spirits. We do not on that account conclude that there is no truth in geography or in medicine. Instead, we conclude that in some cultures people are better informed than in others. Similarly, disagreement in ethics might signal nothing more than that some people are less enlightened than others. At the very least, the fact of disagreement does not, by itself, entail that truth does not exist. Why should we assume that, if ethical truth exists, everyone must know it?

Perhaps the most important criticism of ethical relativism is that it has incoherent consequences. If ethical relativism were true, opponents claim, then it would not make sense to criticize the practices of other societies so long as their practices conformed to their own standards. For example, we could not say that child slavery, as practiced in many societies around the world, is wrong, nor that the discrimination...
In over 28 countries, mostly North African nations, female circumcision—or “female genital mutilation” as its critics call it—is generally accepted. Female circumcision is normally performed when a girl is between 7 and 12 years old. It involves cutting away most of the girl’s external genitalia including the clitoris and labia. In most countries, the procedure is done by a female “practitioner” who uses a small knife or razor blade but no anesthesia. A young girl will often resist so several women must hold her down while the practitioner works. The women who perform circumcisions charge for their services and see their work as a business. It is estimated that in countries where the practice is widely accepted, the annual fees collected by all the businesses that provide circumcision services total tens of millions of dollars.

Mothers in these countries feel they must have their daughters circumcised because otherwise no “good” man will marry them. Many believe that circumcision controls a woman’s sexual desires, and cleanses her spiritually so that others can eat what she cooks. Although the practice is not mentioned in the Koran, many North African Muslims believe that female circumcision is required by certain sayings they attribute to Mohammad, the founder of Islam. However, Muslim scholars dispute both the authenticity and the interpretation of these sayings.

Many Americans and Europeans feel strongly that female genital mutilation is an immoral assault on a helpless and unwilling girl, an assault that provides her no medical benefit, risks serious infection, and permanently deprives her of the ability to feel sexual pleasure. They have pressured foreign governments to outlaw the practice and to crack down on the women who make a business of it because they are violating the human rights of thousands of girls.

Practitioners claim that Westerners who want to prohibit female circumcision are trying to impose their own morality on others. A Somali practitioner said: “This is a great offence and a great interference with our lives and our lifestyle. For too long Europeans have come into our countries and told us how to live our lives and how to behave and we believe that is totally unacceptable. We will not allow foreigners to tell us how to behave or put our businesses at risk any longer. In order for our daughters to be free they must have this procedure. It is their right as women and our obligation as adults to make them into the best young women we can. Circumcision is a fundamental part of becoming a young woman and we will not deny them that because of some misplaced sense of morality from foreigners.”

Phillip Waites, a doctor and medical analyst for a news service noted, “The core issue here is whether or not Europeans have the right to step into another country and demand that they change their traditions and culture.” Remarking on the many practitioners for whom female circumcision is a business, he said: “There aren’t a whole lot of jobs in Somalia. There really isn’t a whole lot of anything in Somalia frankly, and these women have a specialty that not only garners them a good living but also gives them a certain status in the country that they might not otherwise have.”

1. Is the business of providing female circumcision services morally wrong? Why?
2. Is it wrong for Westerners to pressure North African governments to prevent practitioners from doing female circumcisions?
3. Does this case support ethical relativism or does it suggest that there are certain things that are wrong no matter what, or neither of these positions?

practiced in the society of apartheid South Africa in the twentieth century was unjust, nor that it was immoral for the Germans to kill Jews in the Nazi society of the 1930s. For, in each of these societies, people were just doing what the standards of their society said they should do.\(^5^9\)

Critics of ethical relativism also argue that if ethical relativism were correct, then it would make no sense—in fact it would be morally wrong—to criticize any of the moral standards or practices accepted by our own society. If our society accepts that a certain practice—such as slavery—is morally right, then as members of this society, we too must accept that practice as morally right, at least according to ethical relativism. For example, ethical relativism implies that it was wrong for Southern abolitionists to object to slavery since slavery was accepted in Southern society before the Civil War. According to critics, then, the theory of ethical relativism implies that whatever the majority in one’s society believes about morality is automatically correct and so their beliefs cannot be criticized.

The fundamental problem with ethical relativism, critics allege, is that it holds that the moral standards of a society are the only standards by which actions in that society can be judged. The theory gives the moral standards of each society a privileged place that is above all criticism by members of that society or by anyone else: For the relativist, a society’s moral standards cannot be mistaken. Clearly, opponents say, this implication of ethical relativism indicates that the theory is wrong; we all know that at least some of the moral standards of our own society as well as those of other societies may be mistaken.

The theory of ethical relativism, then, does not seem to be correct. But even if the theory of ethical relativism is ultimately rejected, this does not mean that it has nothing to teach us. The ethical relativist correctly reminds us that different societies have different moral beliefs and that we should not simply dismiss the moral beliefs of other cultures when they do not match our own. However, ethical relativism seems to be mistaken in its basic claim that all moral beliefs are equally acceptable and that the only criteria of right and wrong are the moral standards prevalent in a given society. And if ethical relativism is wrong, then there are some moral standards that should be applied to the behaviors of everyone, regardless of what society they live in. In the next chapter, we will explore what kind of standards these might be.

The upshot of our discussion is that there are two kinds of moral standards: those that differ from one society to another, and those that should be applied in all societies. One way of thinking about these two kinds of moral standards is to adopt a framework called “Integrative Social Contracts Theory” or ISCT for short.\(^6^0\) According to the ISCT framework, there are two kinds of moral standards: (1) Hypernorms, which consist of those moral standards that should be applied to people in all societies, and (2) Microsocial norms, which are those norms that differ from one community to another and that should be applied to people only if their community accepts those particular norms.

ISCT holds that it is useful to think of hypernorms as part of a social contract that all people have accepted, and to think of microsocial norms as part of a social contract that the members of a specific community have accepted. Examples of some hypernorms might be human rights principles and principles of justice that apply to all people in all communities. On the other hand, one example of a microsocial norm is the norm that allows a father and a son to take on a common wife, a moral norm that is accepted in Tibet but rejected in all other communities. Another microsocial norm is the norm that when traveling a married woman must be accompanied by her husband or a male relative, a norm that is accepted...
in Saudi Arabia and several other Arab countries but not in the United States nor in Europe.

ISCT claims that hypernorms take priority over microsocial norms. That is, microsocial norms must not contradict hypernorms. If a microsocial norm violates a hypernorm, then it is unethical and should be rejected. Nevertheless, ISCT assumes that hypernorms must allow every community to have some “moral free space.” Moral free space consists of the range of norms that a community is free to accept because they do not violate any hypernorms.

The people of a community, according to ISCT, ought to follow the microsocial norms that are accepted in their community. However, the members of a community must be free to leave their community if they strongly disagree with their community’s microsocial norms. Moreover, according to ISCT, when a manager is operating in a foreign community, the manager should follow the microsocial norms of that community, so long as they do not violate any hypernorms. If the microsocial norms of a community violate a hypernorm, then the manager should not follow that microsocial norm.

Many critics reject the ISCT view that hypernorms should be thought of as part of a social contract that all reasonable people have accepted, while relativists reject the very idea that there are any absolute universal hypernorms. Nevertheless, the distinction between hypernorms and microsocial norms is a useful one. Assuming that there are hypernorms, the distinction provides a useful way to think about the interplay between absolute moral norms that should apply to all people everywhere, and local norms that differ from one society to another. It provides a useful framework for understanding how to deal with moral differences. We have argued that there are absolute moral norms that should apply everywhere; what these might be is a question that we will discuss in the next chapter.

1.3 Moral Reasoning

We have said that ethics is the study of morality and that a person begins to do ethics when he or she turns to look at the moral standards learned from family, church, friends, and society and begins asking whether these standards are reasonable or unreasonable and what these standards imply for the situations and issues we face. In this section, we examine more closely this process of examining one’s moral standards and the reasoning process by which we apply our standards to the situations and issues we face. We begin by describing how a person’s ability to use and critically evaluate moral standards develops in the course of a person’s life, and then we describe some of the reasoning processes through which these moral standards are evaluated and used, and some of the ways they can go wrong.

Moral Development

Many people assume that our values are formed during childhood and do not change after that. In fact, a great deal of psychological research, as well as our own personal experience, demonstrates that as we mature, we change our values in deep ways. Just as people’s physical, emotional, and cognitive abilities develop as they age, so also their ability to deal with moral issues develops as they move through their lives. In fact, just as there are identifiable stages of growth in physical development, so the ability to make reasoned moral judgments also develops in identifiable stages. As children, we are simply told what is right and what is wrong, and we obey so as to
avoid punishment. As we mature into adolescence, these conventional moral standards are gradually internalized, and we start trying to live up to the expectations of family, friends, and surrounding society. Finally, as adults we learn to be critical about the conventional moral standards bequeathed to us by our families, peers, culture, or religion. We start to evaluate these moral standards and to revise them where we think they are inadequate, inconsistent, or unreasonable. We begin, in short, to do ethics and to develop moral principles that we feel are better and more reasonable than what we accepted earlier.

There is a good deal of psychological research that shows people’s moral views develop more or less in this manner. The psychologist Lawrence Kohlberg, for example, who pioneered research in this field, concluded on the basis of over 20 years of research that there is a sequence of six identifiable stages in the development of a person’s ability to deal with moral issues. Kohlberg grouped these stages of moral development into three levels, each containing two stages. At each level, the second stage is the more advanced and organized form of the general perspective of that level. The sequence of the six stages can be summarized as follows.

**LEVEL ONE: PRECONVENTIONAL STAGES**
At these first two stages, the child can apply the labels good, bad, right, and wrong. But good and bad, and right and wrong are seen in terms of the pleasant or painful consequences of actions or what authority figures demand. If you were to ask a 4- or 5-year-old child, for example, whether stealing is wrong, he will say it is. But when you ask the child why it’s wrong, his answer will be something like, “Because Mommy puts me in time-out if I steal.” The child at this level can see situations mainly from his own point of view and so his primary motivations are self-centered.

**Stage One: Punishment and Obedience Orientation** At this stage, the demands of authority figures or the pleasant or painful consequences of an act define right and wrong. The child's reason for doing the right thing is to avoid punishment or defer to the power of authorities. There's little awareness that others have needs and desires like one’s own.

**Stage Two: Instrumental and Relative Orientation** At this stage, right actions become those through which the child satisfies his own needs. The child is now aware that others have needs and desires like he does and uses this knowledge to get what he wants. The child behaves in the right way toward others, so others later will do the same toward him.

**LEVEL TWO: CONVENTIONAL STAGES**
At these next two stages, the older child or younger adolescent sees moral right and wrong in terms of living up to the conventional norms of his or her family, peer group, or society. The young person at these stages is loyal to these groups and their norms. He sees right or wrong in terms of “what my friends think,” “what my family taught me,” “what we Americans believe,” or even “what the law says.” The person has the ability to take the point of view of other similar people in his groups.

**Stage Three: Interpersonal Concordance Orientation** Good behavior at this early conventional stage is living up to the expectations of those for whom the person feels loyalty, affection, and trust, such as family and friends. Right action is conforming to what’s expected in one’s role as a good son, good daughter, good friend, and so on. At this stage, the young person wants to be liked and thought well of.

**Stage Four: Law and Order Orientation** Right and wrong at this more mature conventional stage are based on loyalty to one’s nation or society. The laws and norms of society should be followed so society will continue to function well. The person can see other people as parts of a larger social system that defines individual roles and obligations, and he can distinguish these obligations from what his personal relationships require.

**LEVEL THREE: POSTCONVENTIONAL STAGES**
At these next two stages, the person no longer simply accepts the values and norms of her group. Instead, the person tries to see right and wrong from an impartial point of view.
that takes everyone’s interests into account. The person can question the laws and values of her society and judge them in terms of moral principles that she believes can be justified to any reasonable person. When an adult at this stage is asked why something is right or wrong, the person can respond in terms of what’s “fair for everyone” or in terms of “justice,” or “human rights,” or “society’s wellbeing.”

Stage Five: Social Contract Orientation At this first postconventional stage, the person becomes aware that people have conflicting moral views, but believes there are fair ways of reaching consensus about them. The person believes that all moral values and moral norms are relative and that, apart from a democratic consensus, all moral views should be tolerated.

Stage Six: Universal Moral Principles Orientation At this second postconventional stage, right action comes to be defined in terms of moral principles chosen because of their reasonableness, universality, and consistency. These are general moral principles that deal, for example, with justice, social welfare, human rights, respect for human dignity, or treating people as ends in themselves. The person sees these principles as the criteria for evaluating all socially accepted norms and values.

Kohlberg’s theory is useful because it helps us understand how our moral capacities develop and reveals how we may mature in our understanding of our own moral standards. Research by Kohlberg and others has shown that, although people generally progress through the stages in the same sequence, not everyone progresses through all the stages. Kohlberg found that many people remain stuck at one of the early stages throughout their lives. Those who stay at the preconventional level continue to see right and wrong in the egocentric terms of avoiding punishment and doing what powerful authority figures say. Those who reach the conventional level, but never get past it continue defining right and wrong in terms of the conventional norms and expectations of their social groups or of their nation and its laws. And those who reach the postconventional level and take a rational and critical look at the conventional moral standards they have been raised to hold will come to define right and wrong in terms of moral principles they have chosen because they are reasonable.

It is important to see that Kohlberg believes that the moral reasoning of people at the later stages of moral development is better than the reasoning of those at earlier stages. First, he claims, people at the later stages have the ability to see things from a wider and fuller perspective than those at earlier stages. The person at the preconventional level can see situations only from the person’s own egocentric point of view; the person at the conventional level can see situations only from the familiar viewpoints of people in the person’s own social groups; and the person at the postconventional point of view has the ability to look at situations from a universal perspective that tries to take everyone into account. Second, people at the later stages have better ways of justifying their decisions to others than those at earlier stages. The person at the preconventional level can justify decisions only in terms of how the person’s own interests will be affected, and therefore justifications are ultimately persuasive only to the person. The person at the conventional level can justify decisions in terms of the norms of the group to which the person belongs, and so justifications are ultimately persuasive only to members of the person’s group. Finally, the person at the postconventional level can justify her choices on the basis of moral principles that are impartial and reasonable and that therefore any reasonable person can accept.

Kohlberg’s theory has, however, been subjected to a number of criticisms. First, Kohlberg has been criticized for claiming that the higher stages are morally preferable to the lower stages. This criticism is surely right. Although the higher Kohlberg levels incorporate broader perspectives and more widely acceptable justifications, it does not follow that these perspectives are morally better than the
lower ones. To establish that the higher stages are morally better will require more argument than Kohlberg provides. In later chapters, we will see what kind of reasons can be given for the view that the moral principles that define the later Kohlberg stages are morally preferable to the criteria used in the preconventional and conventional stages.

A second significant criticism of Kohlberg is one that arises from the work of Carol Gilligan, a psychologist. She argues that, although Kohlberg’s theory correctly identifies the stages through which men pass as they develop, it fails to adequately trace out how women’s morality develops. Because most of Kohlberg’s subjects were male, Gilligan has argued, his theory failed to take into account how women think about morality.

Gilligan claimed that there are “male” and “female” approaches to morality. Males, she argued, tend to deal with moral issues in terms of impersonal, impartial, and abstract moral principles—exactly the kind of approach that Kohlberg says is characteristic of postconventional thinking. However, Gilligan claimed, there is a second, “female,” approach to moral issues that Kohlberg’s theory does not take into account. Females, Gilligan claimed, tend to see themselves as part of a “web” of relationships with family and friends. When females encounter moral issues, they are concerned with nurturing these relationships, avoiding hurt to others in these relationships, and caring for their well-being. For women, morality is primarily a matter of “caring” and “being responsible” for those with whom we have personal relationships. Morality is not a matter of following impartial principles. Gilligan claimed that the female approach to morality develops through stages that are different from those Kohlberg described. Moral development for women is marked by progress toward better ways of caring and being responsible for oneself and others with whom we are in relationship. In her theory, the earliest or preconventional level of moral development for women is one marked by caring only for oneself. Women move to a second or conventional level when they internalize conventional norms about caring for others and in doing so come to neglect themselves. As women move to the postconventional or most mature level, they become critical of the conventional norms they had earlier accepted, and they come to achieve a balance between caring for others and caring for oneself.

Is Gilligan right? Although additional research has shown that male and female moral development does not differ in the ways that Gilligan originally suggested, that same research has confirmed the claim that Gilligan has identified a way of thinking about moral issues that is different from the way that Kohlberg emphasizes. Moral issues can be dealt with from a perspective of impartial moral principles or from a perspective of caring for persons and relationships, and these two perspectives are distinct. However, women as well as men sometimes approach moral issues from the perspective of impartial moral principles, and men as well as women sometimes approach moral issues from the perspective of caring for persons and relationships. Although research on the “care perspective” that Gilligan described is still ongoing, it is clearly an important moral perspective that both men and women should take into account. We look more carefully at this care perspective in the next chapter, where we will assess its relevance to business ethics.

For our purposes, it is important to notice that both Kohlberg and Gilligan agree that there are stages of growth in our moral development. Both also agree that moral development moves from a preconventional stage focused on the self, through a conventional stage in which we uncritically accept the conventional moral standards of society around us, and on to a mature stage in which we learn to critically and
reflectively examine how reasonable the conventional moral standards we earlier accepted are, and to develop more adequate standards of our own, both standards of caring as well as standards of impartiality.

We said earlier that you begin to do ethics when you begin to examine critically the moral standards you have accepted from family, friends, and society and ask whether these standards are reasonable or unreasonable. In terms of the stages of moral development that Kohlberg and Gilligan proposed, ethics begins when you move from a simple acceptance of the conventional moral standards that we absorb from society and try to critically and reflectively develop standards based on more adequate reasons and capable of dealing with a wider range of moral issues in a more adequate manner. The study of ethics is the process of developing our ability to deal with moral issues—a process that should enable you to acquire the more reflective understanding of “right” and “wrong” that characterizes the later postconventional stages of moral development. One of the central aims of the study of ethics is the stimulation of this moral development.

This is an important point—one that should not be lost on the reader. The text and cases that follow are designed to be read and discussed with others—students, teachers, friends—to stimulate in ourselves the kind of moral development that we have been discussing. Engaged interaction and discussion of moral issues with the people around us develops our ability to move beyond a simple acceptance of the moral standards we absorb from family, peers, nation, or culture. By discussing, criticizing, and reasoning about the moral judgments that you and others make, you acquire habits of thinking and reasoning that you can use to decide for yourself the moral principles that you feel are reasonable because you have tested them in the heat of discussions with others.

The moral principles that are produced by the kind of analysis and reflection that are characteristic of the latter stages of moral development in both Kohlberg and Gilligan, then, are “better” but not because they come at a later stage. One set of moral principles is “better” than another only when it has been carefully examined and found to be supported by better and stronger reasons—a process that is enhanced through discussions with, and challenges from, other people. The moral principles that appear in the later stages of moral development, then, are better because and to the extent, that they are the product of the kind of reasoned examination and discussion with others that tends to emerge as people improve their moral reasoning skills, grow in their understanding and knowledge of human life, and interact with others to develop a firmer and more mature moral perspective.

Kohlberg’s (and Gilligan’s) theory of moral development has been extended by psychologists who have looked at how moral development is related to self-identity and to the motivation to be moral. William Damon, for example, found that “morality does not become a dominant characteristic of the self until . . . middle adolescence.”67 This means that until middle adolescence, we tend not to see morality as an important part of who we really are. This is significant because he also found that the more morality becomes part of who we are, the stronger our motivation to do what is morally right. In fact, there are “exemplary people” who have so united “self and morality” that when they do what is morally right, “rather than denying the self, they define it with a moral center . . . [and so do not see] their moral choices as an exercise in self-sacrifice.”68 The psychologist Augusto Blasi has argued that part of the process of making morality part of who we feel we really are, is asking ourselves not just “What kind of person do I want to be?” but also “What kind of person should one . . . be?”69 Blasi points out that people have “reflexive desires, namely desires about their own desires,” so another way of asking what kind of person we want to be

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Quick Review 1.16

Research on Moral Identity Suggests

- Morality is not an important part of the self until middle adolescence
- The more morality becomes part of the self, the stronger the motivation to be moral
- Judgments of right and wrong depend in part on the kind of person we think the self is, i.e., on the virtues we think are part of our self.
WorldCom’s Whistleblower

In March 2002, when WorldCom was struggling to coordinate and integrate the complex mess created by the 65 companies it had acquired, WorldCom’s then highly respected chief financial officer, Scott Sullivan, moved $400 million from a reserve account and recorded it as “income” in the company’s public financial reports. Alerted to this, Cynthia Cooper, the perfectionist head of WorldCom’s internal audit department, began to secretly examine the company’s books at night. She soon discovered that Scott Sullivan (named a “best CFO” by CFO Magazine in 1998) and David Myers, WorldCom’s controller, for years had publicly reported billions of dollars as “capital expenditures” when they were really operating costs, ignored uncollectible receivables, and reported as “income” what were really reserve funds, and did all this with the help of Arthur Andersen, the company’s auditor and accounting firm. Though angrily threatened by Sullivan, and risking her job and career, on June 20, 2002, an apprehensive Cooper courageously met with the audit committee of WorldCom’s board of directors and told them what had been going on. On June 25, WorldCom’s directors announced the company had inflated its profits by over $3.8 billion—an amount later raised to $9 billion—in the greatest accounting fraud in history. Sullivan and Myers were arrested; WorldCom shareholders lost $3 billion; 17,000 WorldCom workers lost their jobs; Arthur Andersen was shut down for shredding evidence of other accounting frauds at other firms. Even today, many WorldCom managers and employees do not speak to her and she sometimes cries. Says Cooper: “There is a price to be paid. [But] it comes back to the values and ethics that you learn . . . . The fear of losing my job was secondary to the obligation I felt.”

1. Which of Kohlberg’s six stages of moral development would you say that Cynthia Cooper had reached? Explain.
2. Do her actions and motives support or undermine Carol Gilligan’s views? What would you say is unique about her or what she did?
3. How does William Damon’s theory of moral identity apply to Cynthia Cooper?
Former WorldCom chairman Bernard J. Ebbers and chief financial officer Scott Sullivan are sworn in before testifying before Congress on July 8, 2002.

Arthur Andersen employees rally in support of their embattled accounting firm, which was implicated in the WorldCom scandal.
is to ask, “What kind of desires do I want (or desire) to have?” A major finding of research in moral identity is that it has an important influence on our moral reasoning. That is, in many situations what we judge we should do depends on the kind of person we think we are. For example, if I see myself as an honest person, then I will generally decide I should be honest when tempted to lie. Ethicists have called this approach to ethics the “virtue” approach. Virtues are moral aspects of our character like honesty or courage. This kind of reasoning is somewhat different from reasoning about moral principles. Exactly how it differs we will see in the next chapter when we discuss virtue ethics.

It is important to note also that ethics is not just a matter of logic, reasoning, and cognition. This would leave out the central role that our emotions and feelings play in our moral decisions. We noted earlier that one of the defining features of moral standards is that they are connected to special emotions and feelings, like guilt, shame, compassion, and empathy. But, in addition, moral thinking is, and has to be, aided by our emotions. Of course, emotions can sometimes get in the way of clear thinking. But we cannot engage in moral reasoning without the presence of our emotions. People who have suffered damage to those parts of the brain that are responsible for producing emotions, and so who no longer experience emotions, become incapable of engaging in moral reasoning. They are still able to reason logically and can think abstractly, but they can no longer apply moral standards to their interactions with other people.

Phineas Gage, for example, was a well-liked and respected young man who one day at work happened to lean over an explosive charge while holding an iron rod. The charge exploded with such force that it instantly drove the rod upward through his cheek, behind his left eye, through the front part of his brain, and out at high speed through the top of his skull. Miraculously he survived and recovered without any loss of his ability to walk, move, perceive, speak, think, remember, and reason. But the front part of the brain plays a critical role in the production of emotions so Gage lost most of his ability to experience emotions. And with that loss, he also lost something else. According to witnesses, he was now “fitful, irreverent, indulging at times in the grossest profanity which was not previously his custom, manifesting but little deference for his fellows, impatient of restraint or advice when it conflicts with his desires, at times pertinaciously obstinate, yet capricious and vacillating, devising many plans of future operations, which are no sooner arranged than they are abandoned.” With the loss of his emotions, the young Gage lost the ability to engage in the kind of foresight and moral thinking that previously enabled him to deal ethically with his friends and other fellow human beings. Many other people who, like Gage have lost the ability to have emotions, have also lost the ability to engage in moral reasoning. The link between moral reasoning and emotions has also been supported by studies that show that when we engage in moral reasoning, one of the parts of our brain that becomes active is the part that is active when we experience emotions, the part of the brain that Gage lost.

How do our emotions and reasoning work together? Consider a simple example: our emotional reaction—e.g., empathy—to seeing a woman in front of us being treated badly will suddenly focus our attention on her and how she feels and what is happening to her, driving other concerns out of our mind. The information we get from this focused perception might then make us feel sympathy and this may move us to ask ourselves, and reason about, whether she deserves to be treated as she is being treated. If we judge that she does not deserve it and is being treated unjustly, we may then feel anger, which drives us to think about what we can do to end the injustice. This is just one small example of how our feelings and reasoning can work together.
Moreover, it should be enough to suggest how some of our feelings can even give us information about what is going on around us. Empathy, for example, allows us to know what the victim is feeling and to even experience what she is experiencing. Emotions like sympathy can make us recognize that we are faced with a situation that raises ethical issues and motivate us to try to understand and reason about what is happening. And anger can drive us to think about what we can and ought to do, and then push us into action.

A lot of the discussion that follows focuses on the reasoning processes upon which moral decisions are based. However, it is important to keep in mind that these reasoning processes are driven by, and suffused with, emotions and feelings. Reasoning about ethics is important, but without emotions we would be like Gage: unable to become focused on and concerned about ethics and no longer moved to engage in moral reasoning about ourselves and those around us.

**Moral Reasoning**

We have used the term *moral reasoning* repeatedly. What does it mean? *Moral reasoning* refers to the reasoning process by which human behaviors, institutions, or policies are judged to be in accordance with or in violation of moral standards. Moral reasoning always involves three components: (1) an understanding of our moral standards and what they require, prohibit, value, or condemn; (2) evidence or information about whether a particular person, policy, institution, or behavior has the features that these moral standards require, prohibit, value, or condemn; and (3) a conclusion or moral judgment that the person, policy, institution, or behavior is prohibited or required, right or wrong, just or unjust, valuable or condemnable, and so on. Here is an example of moral reasoning whose author is offering us his reasons for the moral judgment that some U.S. social institutions are unjust:

Blacks and other minorities live in our society and a disproportionate number fight the wars that keep our society safe: 20 percent of the military is black yet only 11 percent of the U.S. is black. Minorities take the dirty jobs (30 percent of cleaners are Hispanics, who are 7 percent of the workforce) and contribute cheap labor (44 percent of farm workers are Hispanic) that lets us live and eat disproportionately well. Yet minorities do not get society’s benefits. Twenty-six percent of blacks and 25 percent of Hispanics fall below the poverty line compared to 12 percent of whites. Black and Hispanic infant mortality is double that of whites. Blacks are 11 percent of the U.S. workforce but hold only 7 percent of all management positions and 6 percent of all engineering jobs. Discrimination that prevents minorities from getting out of their society what they contribute is unjust.

In this example, the author has in mind a moral standard that he sets out at the end of the paragraph: “Discrimination that prevents minorities from getting out of their society what they contribute is unjust.” The earlier part of the paragraph is devoted to citing factual evidence showing that U.S. society exhibits the kind of discrimination this moral principle condemns. The author’s moral judgment about U.S. society is not explicitly stated, but it is obvious enough: U.S. society is unjust. So this example of moral reasoning has the usual components: (1) a moral standard on which the moral judgment is based, (2) evidence or factual information about the institution that is being judged, and (3) a moral judgment or conclusion that is supposed to be drawn
from (1) and (2). Schematically, then, moral or ethical reasoning generally has the kind of structure indicated in Figure 1.1.  

Sometimes one of the three parts of moral reasoning is not expressed. In the example of moral reasoning above, the conclusion was not explicitly stated because it was so obvious. More often, however, people do not explicitly state the moral standards on which their moral judgments are based and we may have to search for them. For example, a person might say, “U.S. society is unjust because it allows 26 percent of Negroes to fall below the poverty line while only 12 percent of whites are below the poverty line.” Here the moral judgment is “U.S. society is unjust” and the evidence is “it allows 26 percent of Negroes to fall below the poverty line while only 12 percent of whites are below the poverty line.” But what is the moral standard on which this judgment is based? The unspoken moral standard has to be something like: “A society is unjust if it allows a higher percentage of people of one race to be poor than those of another race.” How do we know? Because the factual information that 26 percent of Negroes fall below the poverty line while 12 percent of whites are below the poverty line can serve as evidence for the moral judgment that U.S. society is unjust only if we accept the moral standard that a society is unjust if it allows a higher percentage of people of one race to be poor than those of another race. Without this moral standard, the factual information would have no logical relation to the conclusion and so could not be evidence for the conclusion. So to uncover the unspoken moral standards someone is using when he or she makes a moral judgment, we have to trace his or her reasoning back to its moral assumptions. This involves asking (a) what factual information does the person think is evidence for his moral judgment, and (b) what moral standards are needed to logically relate this factual information to his moral judgment.

One reason we do not make our moral standards explicit in our moral reasoning is that we generally assume these moral standards are obvious. So we put most of our efforts into looking at whether there is evidence that a given situation does or does not violate our (unspoken) moral standards. But we put little or no effort into examining the (unspoken) moral standards on which our judgments rely. Yet if we do not make our moral standards explicit, we can end up basing our judgments on moral standards we do not even realize we hold. Or, worse, we may rely on standards that we would reject if we explicitly thought about them. Our unspoken moral standards might be inconsistent, they might be unreasonable, or they might have implications we do not accept. In the example of moral reasoning, we have been discussing the unspoken moral standard: A society is unjust if it allows a higher percentage of people of one race to be poor than those of another race. But now that we have made this standard explicit, we might not be so sure it is right. For example, some people have suggested that the inequalities in the percentages of each race that are poor are the result of different natural characteristics the two races...
possess. And if they are the result of natural differences, then do such inequalities show a society is unjust? We may reject the suggestion that inequalities are the result of natural racial differences, but the suggestion should at least lead us to look more carefully at whether the moral standards we are using are justified. Making explicit the moral standards upon which our moral judgments are based, then, is crucial to understanding whether the moral standards that underlie our reasoning are really justified.

The moral standards upon which adults base their moral judgments are usually a lot more complex than these simple examples suggest. A person’s moral standards usually include qualifications, exceptions, and restrictions that limit their scope. Also, they may be combined in various ways with other important moral standards. Still, the general method of uncovering people’s unspoken moral standards remains roughly the same however complex their standards are. We need to ask: What general moral standards are needed to relate this person’s factual evidence to the moral judgment he or she is making?

Hopefully, this explanation of moral reasoning has not suggested that it is always easy to separate factual information from moral standards in a piece of moral reasoning—nothing could be farther from the truth. In practice, the two are sometimes intertwined in ways that are hard to disentangle. Also, there are several theoretical difficulties in trying to draw a precise line separating the two. Although the difference between the two is usually clear enough for practical purposes, the reader should be aware that sometimes they cannot be clearly distinguished.

Analyzing Moral Reasoning

There are various criteria that ethicists use to evaluate how good a piece of moral reasoning is. First, moral reasoning must be logical. This means that when we evaluate a person’s moral reasoning, we should first make the person’s unspoken moral standards explicit. We should also understand what evidence the person offers to support his or her conclusion, and know exactly what the person’s conclusion is. Then, we can determine whether the person’s moral standards together with the evidence he or she offers logically support his or her conclusion.

Second, the factual evidence the person cites in support of his or her moral judgment must be accurate, relevant, and complete. For example, the illustration of moral reasoning quoted earlier cites several statistics (“Although blacks are 11 percent of the U.S. work force, they hold only 7 percent of all management positions and only 6 percent of all engineering jobs.”) and relationships (“minorities contribute cheap labor that lets the rest of us live and eat disproportionately well”) that are said to exist in the United States. If the moral reasoning is to be adequate, these statistics and relationships must be accurate: They must rest on reliable statistical methods and well-supported scientific theory. In addition, evidence must be relevant: It must show that the behavior, policy, or institution being judged has precisely those characteristics that are condemned by the moral standards involved. For instance, the statistics and relationships in the illustration of moral reasoning given above must show that some people are “prevented from getting out of [U.S.] society what they contribute,” the precise characteristic that is condemned by the moral standard cited in the illustration. Finally, evidence must be complete in this sense: It should take into account all relevant information and must not selectively consider only evidence that tends to support a single point of view.

Third, the moral standards involved in a person’s moral reasoning must be consistent. They must be consistent with each other and with the other standards and beliefs
the person holds. Inconsistency between our moral standards can be uncovered and corrected by examining situations in which these moral standards require incompatible things. Suppose I believe that (1) it is wrong to disobey an employer whom one has contractually agreed to obey, and I also believe that (2) it is wrong to help a person who is putting people’s lives at risk. Then, suppose that one day my employer tells me to sell a product that may be dangerous, perhaps fatal, to people who use it. The situation now reveals an inconsistency between these two moral standards: I can either obey my employer and avoid disloyalty, or I can disobey my employer and avoid helping him or her do something that endangers people’s lives, but I cannot do both.

When inconsistencies between one’s moral standards are uncovered in this way, one (or both) of the standards has to be changed. In this example, I might decide that orders of employers have to be obeyed except when they threaten human life. Notice that, to determine what kinds of modifications are called for, one has to examine the reasons one has for accepting the inconsistent standards and weigh these reasons to see what is more important and worth retaining and what is less important and subject to modification. In this example, for instance, I may have decided that the reason that employee loyalty is important is that it safeguards property, but the reason that the refusal to endanger people is important is that it safeguards human life. Human life, I then decide, is more important than property. This sort of criticism and adjustment of one’s moral standards is an important part of the process through which moral development takes place.

There is another kind of consistency that is perhaps even more important in ethical reasoning. Consistency also refers to the requirement that one must be willing to accept the consequences of applying one’s moral standards consistently to all persons in similar circumstances. This consistency requirement can be phrased as follows. Suppose “doing A” refers to some type of action, and “circumstances C” refers to the circumstances in which someone carried out that action. Then, we can say:

If you judge that one person is morally justified (or unjustified) in doing A in circumstances C, then you must accept that it is morally justified (or unjustified) for any other person to perform any act relevantly similar to A, in any circumstances relevantly similar to C.

That is, you must apply the same moral standards to the action of one person in one situation that you applied to another that was relevantly similar. (Two actions or two circumstances are “relevantly similar” when all those factors that have a bearing on the judgment that an action is right or wrong in one case are also present in the other.) For example, suppose that I judge that it is morally permissible for me to fix prices because I want the high profits. If I am going to be consistent, I have to hold that it is morally permissible for my suppliers to fix prices when they want high profits. If I am not willing to consistently accept the consequences of applying to other, similar persons the standard that price fixing is morally justified for those who want high prices, I cannot rationally hold that the standard is true in my own case.

The consistency requirement is the basis of an important method of discovering that we need to change or modify our moral standards: the use of counterexamples or hypotheticals. If we are wondering whether a moral standard is acceptable, we can often test it by seeing whether we are willing to accept the consequences of applying that standard to other similar hypothetical cases. For instance, suppose I claim that it was morally justified for me to lie to protect my own interests because “It is always morally justified for a person to do whatever will benefit himself or herself.” We can evaluate whether this principle is really acceptable by considering the hypothetical example of an individual who knowingly injures me or someone I love, and who claims he or she
was morally justified because the injury was to his or her own benefit. If, as is likely, I do not think another person would be morally justified in injuring me or someone I love simply because it benefits him or her, then I need to qualify or reject the principle that “It’s always morally justified for a person to do whatever will benefit himself or herself.” I have to qualify or reject it because consistency requires that if I really accept the idea that I am justified in injuring someone when it benefits me, then I would have to accept that anyone else would be justified in injuring me whenever it benefits him or her. The point is that hypothetical examples can be used effectively to show that a moral standard is not really acceptable and so must be rejected or at least modified.

**Moral Behavior and Its Impediments**

We have spent some time discussing what moral reasoning is. But moral reasoning is only one of the processes that lead up to ethical or unethical behavior. Studies of the main steps that lead up to ethical or unethical action have converged on the view, first proposed by the moral psychologist James Rest, that four main processes precede ethical action: (1) recognizing or becoming aware that we are faced with an ethical issue or situation, i.e., an issue or situation to which we can respond ethically or unethically, (2) making a judgment about what the ethical course of action is, (3) forming an intention or decision to do or not do what we judge is right, and (4) carrying out or acting on the intention or decision we have made. These four processes do not have to occur in sequence; in fact, one or all of them may occur simultaneously. Moreover, it is not always easy to distinguish them from each other, especially when they are simultaneous.

Notice that moral reasoning is concerned only with the second of these processes, i.e., making a judgment about what the ethical response to an issue or situation should be. Moreover, moral reasoning, as we will see, is not the only way to make a decision about what the right thing to do is. We will discuss those other ways in the next chapter. In this chapter, we are going to look at the four main processes that lead up to ethical (or unethical) action. In particular, we are going to look closely at several impediments that can hamper these processes. Understanding these impediments will perhaps help you deal with them more effectively when you encounter them in your own life.

**The First Step toward Ethical Behavior: Recognizing an Ethical Situation**

Every day we encounter situations that raise ethical issues. But before we will even start thinking about those issues, we first have to recognize that the situation we have encountered is one that calls for ethical reasoning: There are many different ways we can see or categorize a situation. To deal with each type of situation, we use ways of thinking that are appropriate for that type of situation. For example, we can see a situation as being a “business” situation that calls for using business rules and business reasoning, or we can see it as a “legal” situation, or a “family” situation. When a situation is recognized as a business situation we may start thinking about what we can do to save money, or about the impact our actions will have on revenues or sales or profits. When a situation is seen as a legal situation, we may start thinking about the laws or regulations that apply to the situation and ask whether this or that course of action would be legal and what we need to do to comply with the law. And when we see a situation as a family situation, we may start thinking of what a parent or son or daughter or husband should do in this kind of situation. We can use the word “frame” to refer to the way we see a situation — i.e., the type of situation we think we have encountered — and the kind of thinking that should be used to deal with that type of situation. Most situations, of course, will fall within several frames. A business situation can also be a personal one, and a legal situation can also involve family.
Besides business, legal, and personal frames, we also apply moral or ethical frames to situations. When we “frame” a situation as a moral or ethical situation, we recognize it as one that raises ethical questions or issues and we start thinking about it in moral ways, i.e., we start using moral reasoning and moral standards to deal with it. Situations that we correctly frame as “ethical” will ordinarily also fall within some other frame, such as a legal or business frame; that is, a legal or business situation can also be an ethical one. What are the features of situations that lead us to frame them as ethical situations? Some psychologists have argued that there are six criteria that we can and do use to decide whether to frame a situation as an ethical situation calling for ethical reasoning. Simplified somewhat, the six criteria are:

1. Does the situation involve the infliction of serious harm on one or more people?
2. Is the harm concentrated on its victims so that each victim will, or already has, sustained a significant amount of harm?
3. Is it likely that the harm will occur (or has actually occurred)?
4. Are the victims proximate, i.e., close or accessible to us?
5. Will the harm occur fairly soon (or has it already occurred)?
6. Is there a possibility the infliction of harm violates the moral standards we or most people accept?

The more of these questions that we answer affirmatively, the more “important” the situation will be for us, and the more likely we will frame it as an ethical situation calling for ethical reasoning. Notice that we can use these criteria to determine whether or not we should frame a situation as an ethical one. That is, we can deliberately use these six questions to determine whether the situation before us is one we should be treating as an ethical situation. The more of these questions that we answer affirmatively the more likely that we should frame the situation as ethical. We can sharpen our ability to recognize ethical situations, then, by training ourselves to pay moral attention when we see situations that involve harm that is concentrated, likely, proximate, imminent, and that possibly violates our moral standards.

While there are ways of improving our ability to recognize whether a situation requires ethical thinking, there are also a number of impediments that can get in the way—or that we can put in the way—of recognizing an ethical situation. Albert Bandura identified six forms of “moral disengagement,” for example, that can prevent us (or that we can deliberately use to prevent ourselves) from recognizing or becoming aware that a situation is an ethical one. The main forms of moral disengagement that function as impediments to framing a situation as an ethical one are:

**Euphemistic Labeling** We can use euphemisms to change or veil the way we see a situation we have encountered. Instead of thinking about the fact that we are firing people, for example, we try to think of what we are doing as “downsizing,” “rightsizing,” or “outsourcing.” The U.S. military refers to the killing of civilians as “collateral damage.” Politicians have referred to torture as “enhanced interrogation techniques,” and to lies as “misstatements,” “technically inaccurate statements,” or “less than precise words.” By using such euphemisms, we change how we see the situation and instead of framing it as an ethical situation, we frame it to ourselves as only a business, a military, or a political one.

**Rationalizing Our Actions** We can tell ourselves that the harm we intend is justified because we are pursuing a worthy and moral cause, so we do not need to look at our actions through an ethical frame. When a terrorist is planning to plant a bomb...
that will kill innocent civilians, for example, he or she might see himself or herself as a courageous fighter against a brutal oppressor. Therefore, the terrorist feels that what he or she plans to do is justified and does not have to frame his or her actions as needing ethical evaluation. Rationalization can also take place after we have inflicted an injury on others. When rationalization is used after an injury has been inflicted, it is usually part of an attempt to escape responsibility for the injury. We will look at such uses of rationalization below when we discuss the nature of moral responsibility.

**Diminishing Comparisons** By seeing a situation in the context of other larger evils, we can diminish the magnitude of our own wrongdoing and make the harms that we inflict appear minor or inconsequential. For example, when we see the losses our company inflicted on customers, we may think “Well, it’s not as bad as what that other company did.” Or we may steal office supplies while thinking, “This is minor in comparison to what the company has done to me.” Such comparisons allow us to see the harms we inflict as so small they do not need to be seen through an ethical frame.

**Displacement of Responsibility** When we do our jobs in a way that harms others, we can see the harm as inflicted by whoever told us to do it and thereby, we mentally remove ourselves from the chain of actors responsible for the harm. For example, if I learn that customers are being badly injured by a product I help manufacture, I can tell myself that my bosses are the ones who are responsible for the injuries because they ordered me to do what I did, and so I am not involved in these harms. I then do not have to put a moral frame on my own actions since “I wasn’t really involved in injuring our customers.”

**Diffusion of Responsibility** I can obscure my involvement in activities that harm someone by seeing myself as playing only a small role in a large group that is responsible for the harm. For instance, if I am a member of an engineering team that designed a product that harmed buyers, then I may tell myself it was really the team that produced the injury and I had only a minor or negligible role in what happened. Again, I do not have to apply an ethical frame to my own actions since “I was just one person out of a lot of people, so I wasn’t very involved in the situation.”

**Disregarding or Distorting the Harm** We can deny, disregard, or distort the harm that our actions produced. I can choose to believe, for example, that “There’s really no good evidence that anyone was hurt.” Or I can discredit the evidence by thinking, “You can’t believe the victims since they probably exaggerated their injuries so they could sue us for a lot of money.” If we convince ourselves that there is no real harm involved, then we do not have to frame our actions as needing ethical scrutiny.

**Dehumanizing the Victim** We can think of the victims we injure as not real or not full human beings with human feelings and concerns so that we can avoid seeing we are harming real people. During wars countries often dehumanize their “enemies,” by putting nonhuman labels on them so they do not have to think about their actions through an ethical frame. Before Hitler and the German Nazis murdered six million Jews, they labeled them “parasites,” “an infestation,” and “a disease.” When a bank in Berkeley, California wanted to construct a building on an empty lot that was occupied by homeless people living in tents, it began calling them “squatters,” and “vagrants.” Instead of thinking of the employees we are firing as human beings, we may think of them as “human resources.”
Redirecting Blame  We can blame what we have done on our adversary or on the circumstances so that we see ourselves as innocent victims provoked by others or by the circumstances. When a worker complains to the human resources department that his manager is harassing other workers, the manager may get angry and retaliate against the worker by firing him while thinking that the worker “deserved it” for being disloyal, or that the worker “started it” and as a manager he was “forced” to fire him to establish his authority.

These six forms of moral disengagement are obstacles that, without our knowledge, can prevent us from framing the situation we are in as an ethical situation and thereby, keep us from thinking about it in moral or ethical terms. But we can also deliberately use these forms of moral disengagement to avoid framing a situation as an ethical situation when we more or less unconsciously suspect that seeing it in ethical terms will force us to admit that we are doing something wrong. As I am sure you have already realized, all of these forms of disengagement are common occurrences in our ordinary daily human life, and they are just as common in business where they are invoked by employees, especially when their company is discovered to be engaged in unethical behavior. Hopefully, being aware of these obstacles will help you avoid them in your own future work life.

The Second Step toward Ethical Behavior: Making a Judgment about the Ethical Course of Action  As we saw earlier, before we judge a situation we should try to gather information about it that is accurate, relevant, and complete. Our attempts to gather such information, however, can be affected by biases that prevent us from getting the information we need. A bias is an assumption that distorts our beliefs, perceptions, and understanding of a situation. Several forms of bias have been studied, and these are usually put into three groups: biased theories about the world, biased theories about other people, and biased theories about ourselves.83

Biased Theories about the World  Theories about the world refer to the beliefs we have about how the world works, the causes that make things happen, and how our actions affect the world. The world presents us with such a flood of complicated information that we cannot think about it unless we somehow simplify it. One way we simplify is by limiting the amount of information we allow ourselves to think about. When we are thinking about the consequences of our actions, however, these limits can create biases. In particular: we tend to ignore low-probability consequences; we discount the role of chance and err in assessing the risks attached to our actions; we do not consider all of the stakeholders our actions will impact; we ignore the possibility that the public will find out what we did; we discount consequences relatively far in the future; and we do not take into account the indirect effects of our actions. These biases can lead us to ignore critically important information about the ethical situations we face. For example, on April 20, 2010 a British Petroleum (BP) oil-well platform in the Gulf of Mexico blew up, killing 11 workers and releasing millions of gallons of oil into the Gulf where it created an environmental disaster. British Petroleum had installed a “blowout preventer” but by chance the preventer failed, a low probability consequence that BP did not prepare for.84 BP had a history of ignoring how its actions might affect the natural environment and had not seen that it would be subjected to intense public scrutiny as a result of a blowout since most blowouts are relatively minor and ignored by the press.85 A government report on an earlier BP oil rig explosion in Texas stated that although “warning signs of a possible disaster were present,” the company had not tried to prevent the possibility of such a future event. And because of a single-minded focus on cost-cutting and “a false sense of confidence,” the company had not made needed investments on safety processes. Because
of its many indirect effects, the 2010 Gulf oil spill ended up having a devastating and long-lasting impact on the economy of all Gulf states and on the Gulf environment. Thus, the 2010 Gulf oil spill illustrates all of the biases above. BP failed to prepare for the low probability event of a major blowout; it did not take chance into account, consider all the potential stakeholders, consider how the press might publicize its history of unethical behavior, discounted what might happen in the future so it could invest more in its present activities, and didn’t think about all the indirect effects its actions might have. If the company had taken these pieces of information into account when deciding what kind of safety precautions it should invest in, the blowout might never have happened.

**Biased Theories about Others** Biased theories about others include the beliefs we have about how “we” differ from “them” or what the members of certain groups are like. *Ethnocentrism* refers to one important class of such beliefs. Ethnocentrism refers to the belief that what our nation, group, or culture ("we") does, seems normal, ordinary, and good, while what others ("they") do, seems foreign, strange, and less good. “Our” way is superior while “their” way is inferior. Such beliefs lead to unintentional discrimination. Banks with mostly white mortgage lending agents, for example, tend to reject a larger proportion of non-white loan applicants than white loan applicants. Even after taking into account differences in income, employment, and credit history, etc., the difference in rejection rates remains. When this is pointed out, lending agents vigorously deny that they are intentionally discriminating. Their denial is probably an honest one because the differences are likely due to an unconscious bias that leads them to unintentionally favor white people like themselves over non-whites who are “different.”

*Stereotypes* are beliefs that work like ethnocentric beliefs but they are beliefs we can have about the members of any group, not just groups that are culturally or ethnically different from ours. Stereotypes are fixed beliefs we have about what “all” or “most” members of various groups are like, such as people of a certain nationality, or a certain gender, or race, or religion, or occupation. Stereotypes can also lead to unfair, false, and possibly illegal decisions about people. Stereotypes, for example, can lead us to unconsciously and wrongly think that men are more effective leaders than women, that blacks are all good at sports, that Asians always study hard, that Mexicans are lazy, that gays are effeminate, that all Muslims support terrorism, that women are better nurses than men, etc. Stereotypes can result in unethical decisions regarding promotions, hiring, firing, salaries, job placement, and other decisions that depend on our judgments of people.

**Biased Theories about Oneself** Perhaps not surprisingly, research has shown that our own views of ourselves tend to be flawed. We generally—and unrealistically—believe we are more capable, insightful, courteous, honest, ethical, and fair than others, and are overconfident about our ability to control random events. We tend to believe that we deserve any rewards, bonuses, or pay-increases that we receive for the work we do, in part because we believe that we contribute more to the organization’s successes than others who hold similar positions. We tend to be overly optimistic about our future because we overestimate the likelihood that we will experience good events, while underestimating the likelihood that we will be the ones who experience bad events. For example, people believe that they are less likely than others to experience divorce, alcoholism, or a serious auto injury. Because they believe they are immune to risks, managers sometimes commit their organization to risky courses of action. British Petroleum’s managers, for example, decided to take the risk of not investing in safety measures, thereby committing the company to a course that led to the
disastrous 2010 Gulf oil spill. They had, perhaps, a false confidence that matters could not go wrong when they were in charge.

We tend to be overly confident also about what we think we know. For example, in a series of psychology experiments in which people were asked to answer simple factual questions (like “Which city is farther north, Rome or New York?”), people regularly overestimated the probability that their answers were correct. We also tend to overestimate our ability to be objective when making judgments about a transaction between our employer and ourselves (or someone close to us). Suppose that I am the purchasing agent for my company and I am supposed to choose the supplier that can sell us the highest quality materials, but one of the suppliers is a company my spouse owns. Most of us would say that we can be objective although one of the suppliers we are evaluating is owned by one’s spouse. Yet studies show that no matter how confident people are about their ability to remain objective, in reality their judgments are almost always biased toward their own interests or the interests of people close to them. 86

There are, then, a number of biases about ourselves, about others, and about the world around us that lead us to mistaken beliefs about the situations we encounter. If we are not aware of, and alert to, the influence of such biases, we may think that we are basing our decisions on solid information when, in fact, we are basing our judgments on distortions or falsehoods. And, perhaps even worse, these biases may make us confident that we are right when in fact we are completely wrong.

The Third Step toward Ethical Behavior: Deciding to Do What Is Right

Even after I determine what the morally right and morally wrong course of action should be in a given situation, there is no guarantee that I will decide to do what is right. People often decide on unethical behavior even though they realize it is unethical, or they fail to commit to what is ethical although they know it is the ethical course of action. That is, in fact, the essential nature of evil: knowing something is wrong but deciding to do it anyway. There are a number of factors that influence whether we decide to do what we know is right, or decide instead to do what we know is wrong.

People’s decisions to do what is ethical are greatly influenced by their surroundings, particularly by their organizational surroundings such as the “ethical climate” and the “ethical culture” of the organization. 87 Ethical climate refers to the beliefs an organization’s members have about how they are expected to behave. In organizations with “egoistic” climates, employees feel they are expected to be self-seeking and so they are; while in organizations with “benevolent” climates, employees feel they are expected to do what is best for various stakeholders such as employees, customers, suppliers, and the community. Not surprisingly, members of organizations with “egoistic” climates find it harder to make ethical decisions about what they know is right, than do members in organizations with benevolent climates.

Ethical culture refers to the kind of behavior an organization encourages or discourages by repeated use of examples of appropriate behavior, incentives for ethical behavior, clear rules and ethics policies, rewards for exemplary conduct, stories of notable ethical actions, etc. While ethical climate refers to employee beliefs about an organization, ethical culture refers to the ways an organization encourages some behaviors and discourages others. The culture of some organizations encourage and reward only business objectives with no attention to ethics while the cultures of other organizations encourage and reward ethical behavior and not just bottom-line results. Organizations with a strong ethical culture make it easier for us to decide to do what is right, while those with strong business cultures can make it harder to decide to do what is right.

Quick Review 1.23

Deciding to do What is Ethical can be Influenced by
- The culture of an organization
- Moral seduction
Organizations can also generate a form of “moral seduction” that can exert subtle pressures that can gradually lead an ethical person into decisions to do what he or she knows is wrong. A team of psychologists found, for example, that:

Moral seduction occurs one step at a time. For example, in one year, an auditor might decline to demand that the client change an accounting practice that is at the edge of permissibility. The next year, the auditor may feel the need to justify the previous year’s decision and may turn a blind eye when the client pushes just past the edge of permissibility. The following year, the auditor might endorse accounting that clearly violates GAAP rules in order to avoid admitting the errors of the past two years and in the hope that the client will fix the problem before the next year’s audit. By the fourth year, the auditor and client will both be actively engaged in a cover-up to hide their past practices.88

An organization that accepts unethical practices, then, can draw a new, young, and perhaps idealistic person into gradually accepting unethical practices that earlier the person might have rejected out-of-hand because the person knew that they were clearly unethical. The person first may be asked to do something that is only slightly questionable, perhaps as a favor or to be a “team player.” Then the person may be asked to go along with something just slightly more serious, until step by step the person finally finds himself deeply involved in the unethical practices of the organization, and so compromised by his past actions that the person feels that he has to continue his involvement. Ethical seduction can lead a person to decide to do what in his heart the person knows is unethical and should not be done.

**The Fourth Step toward Ethical Behavior: Carrying Out One’s Decision** Good intentions do not always result in good behavior because we often fail to do what we intended to do. I may be genuinely committed to doing what is right, but when the time comes to act, I may lack the determination to do what I intended. What factors influence whether a person acts on the moral decisions he or she has made?

First, there is the personal or individual factor that the Greek philosopher Aristotle called “weakness of will” and its opposite, “strength of will.”89 Strength of will refers to our ability to regulate our actions so that we resolutely do what we know is right even when powerful emotions, desires, or social pressures urge us not to. Weakness of will refers to the inability (or low ability) to regulate our actions so that we fail to do what we know is right when emotions, desires, or external pressures tempt us. Some psychologists refer to this ability as “ego strength”: the ability to be resistant to impulses and to follow one’s own convictions. Some people have a high level of ego strength, while others have low levels. Aristotle argued that a person develops weakness of will by repeatedly giving in to the temptation to overindulge one’s appetites and emotions; while by repeatedly resisting the temptation to overindulge one’s appetites and emotions a person develops strength of will.90

A second important factor that affects whether a person will decide to do what the person judges is wrong is their belief about their **locus of control**. Locus of control refers to whether a person believes that what happens to him or her is primarily within his or her control, or instead believes that what happens to him or her is primarily the result of external forces such as other powerful people, or luck, or circumstances. People who believe they are in control of their own lives tend to have better control of their behavior and are more likely to do what they believe is right, whereas those who believe that what happens to them is not in their control, but is determined by external forces, are more often swayed by external forces to do what they do not think is right. In short, if you believe you are in control of your life, you will acquire greater

**Quick Review 1.24**

**Carrying Out One’s Decision Can Be Influenced by**
- One’s strength or weakness of will
- One’s belief about the locus of control of one’s actions.
control of your life and increase your ability to do what you think is right. But if you believe you are not in control of your life, the belief itself can lead you to relinquish the control you do have.

A third important factor that can keep a person from doing what he or she knows is right is the person’s willingness to obey authority figures. Studies in social psychology have demonstrated that many people willingly obey authority figures even when they believe or suspect they are doing something wrong. For example, several years ago the psychologist Stanley Milgram tested subjects to see how far they would go when an authority figure ordered them to give another person increasingly severe electric shocks from an electric “shock machine.” He found that if the authority figure—in this case the experimenter—said things like: “It is absolutely essential that you continue,” or “You have no choice, you must go on,” or “The responsibility is mine, please go on,” about two-thirds of his subjects obeyed and continued increasing the voltage of the shocks they were giving the other person, up to and beyond the level they felt could seriously harm or even kill the person. Unknown to the subjects, the electric “shock machine” was not real and the person they were “shocking” was an actor. When questioned afterwards, his subjects almost all admitted that they felt or suspected that what they were being asked to do was wrong, but they nevertheless felt they had to obey the experimenter since he was the person in charge. The experiment showed, Milgram said, that most ordinary people would follow orders even when asked to do what they believed was wrong—even kill a person. In light of the Milgram experiments, it is easy to see that in business organizations, many people are likely to feel they “have to” go along with what managers ask them to do, even when they believe it is morally wrong.

There are several impediments, then, that can trip up a person even at the fourth and final stage of the road to ethical behavior: i.e., the stage of actually carrying out a decision to do what is right. Three such impediments are people’s weakness of will, their views about whether they are in control of what happens to them, and their willingness to obey authority figures. There are other impediments to doing what we have decided is right but that we can here only mention: pressures our peers put on us to do what we know is wrong, fears of the personal costs of doing what we know is right, and limited self-control or limited impulse-control.

Impediments, then, can hamper any of the four processes that should lead up to ethical behavior: recognizing an ethical issue, making a judgment about the right thing to do, deciding to do what we judge to be right, and carrying out our decision. We have described these impediments so that armed with the knowledge of what they are and how they can impede you, you will be better equipped to overcome them.

1.4 Moral Responsibility and Blame

So far our discussion has focused on judgments about right and wrong, and good and evil. Moral reasoning, however, is sometimes directed at a different kind of judgment: determining whether a person is morally responsible for an injury or for a wrong. A judgment about a person’s moral responsibility for wrongdoing is a judgment that the person acted intentionally and so should be blamed or punished, or should pay restitution.

The kind of moral responsibility we are discussing here should not be confused with a second but distinct form of “moral responsibility.” The term moral responsibility is sometimes used to mean “moral duty” or “moral obligation.” For example, when we say, “Vandiver had a moral responsibility not to lie,” we are using the words “moral responsibility” to mean “moral obligation.” This is not the kind of moral responsibility that we are talking about here. The kind of moral responsibility we are
discussing is when we say a person is *to blame* for something. For example, if we say, “Vandiver is morally responsible for the deaths of any pilots who crashed when trying to land the A7-D plane,” then we are using the words “is morally responsible” to mean “is to blame.” It is this second meaning of moral responsibility that we are talking about here.

Getting clear about what moral responsibility (i.e., being to blame) involves is important for several reasons. First, and most importantly, determining who is morally responsible for a wrong allows us to identify who should fix the wrong. If, for example, you are morally responsible for harming your neighbor, then you are the one who should compensate your neighbor for his or her losses, at least to the extent that those losses can be compensated. Second, determining whether or not someone is really morally responsible for, say, breaking a law or a rule, allows us to ensure that we do not mistakenly punish, penalize, or blame an innocent person. Most businesses, for example, have rules against “conflicts of interest” and employees sometimes break these rules without realizing what they were doing. It would be a mistake to punish such employees if they really were not morally responsible for what they did. Third, determining whether you are or are not morally responsible for someone’s injury helps to ensure that you do not end up feeling shame or guilt when you should not be feeling these emotions. For example, if you inflict a bad injury on a fellow worker while operating a machine, you will probably feel pretty bad about what happened. But whether you should feel guilty or ashamed depends on whether you are morally responsible for what happened for if, say, the injury was an accident then you are not morally responsible and so are not guilty. And fourth, knowing exactly what moral responsibility is may help keep us from wrongly trying to rationalize our conduct. When a person realizes that her actions resulted in serious injuries to others, she may not want to accept her responsibility for what she did. In such situations, we sometimes try to escape responsibility for our actions by coming up with rationalizations that we use to deceive ourselves, as well as others. Hopefully, being clear about what moral responsibility involves will help us see our own responsibility more clearly and help us avoid rationalizations and self-deception.

People are not always morally responsible for the injuries they inflict on others. A person, for example, who injures someone by accident is “excused” from any blame. So when is a person morally responsible—or to blame—for an injury? We can summarize the traditional view in this way: A person is morally responsible for an injury when the person *caused* the injury and did so *knowingly* and *of his or her own free will*. But this characterization ignores the fact that people are sometimes responsible for injuries which they did not cause, but which they could and should have prevented. That is, they are morally responsible for their omissions when they had a duty to act. So a more accurate—but more complicated—way of characterizing moral responsibility is the following:

A person is morally responsible for an injury or a wrong if:

1. the person caused or helped cause it, or failed to prevent it when he or she could have and should have; and
2. the person did so knowing what he or she was doing; and
3. the person did so of his or her own free will.

For shorthand purposes, we will refer to the three elements of moral responsibility as the requirements of: (1) causality, (2) knowledge, and (3) freedom. This means the absence of any of these three elements will completely eliminate a person’s responsibility for an injury and so will fully “excuse” a person from any blame for the injury. Several manufacturers of asbestos, for example, were recently judged
responsible for the lung diseases suffered by some of their workers. The judgment was based in part on the finding that the manufacturers should have warned their workers of the known dangers of working with asbestos, yet they knowingly failed to perform this duty, and the lung diseases were a foreseen result of their failure to warn. In their defense, some asbestos manufacturers denied the causality requirement when they claimed that the lung injuries suffered by their workers were not caused by working with asbestos, but by smoking. Other manufacturers denied the knowledge requirement by claiming that they did not know that conditions in their plants would cause lung cancer in their workers. And yet others denied the freedom requirement by saying that they were not free to prevent the injuries because they had tried to get their workers to wear protective masks, but the workers refused. Thus, the workers were injured because of circumstances that the manufacturers could not change. Most courts did not accept these claims. But the point here is that if any of these claims were true, then the manufacturers could not be morally responsible for the lung diseases of their workers.

It is important to understand these three conditions well enough to be able to judge on your own whether a party (you or someone else) was morally responsible for something. Let us begin by examining the first requirement for moral responsibility: The person must either cause the injury or wrong or else must fail to prevent it when he or she could and should have done so. In many cases, it is easy to determine whether a person’s actions “caused” an injury or a wrong (such actions are “commissions”). But this is not so easy when a party does not cause an injury but merely fails to prevent it (such failures are “omissions”). For example, Nike, the athletic shoe company, was, for a long time, at the center of a controversy over its responsibility for the mistreatment of the workers who make its shoes. Nike does not actually manufacture any of the athletic shoes it sells. Instead, Nike designs its shoes in Seattle, Washington, and then pays other companies in developing countries to make the shoes according to its designs. It was these foreign supplier companies (in China, Indonesia, India, etc.) that directly mistreated and exploited their workers. Nike claimed that it was not morally responsible for this mistreatment because the suppliers caused the injuries, not Nike. Critics have responded that although it is true that Nike did not directly cause the injuries, nevertheless the company could have prevented those injuries by forcing its suppliers to treat their workers humanely. If it is true that Nike had the power to prevent the injuries, and should have done so, then the company met the first condition for moral responsibility. But if Nike was truly powerless to prevent these injuries—if Nike truly had no control over the actions of its suppliers—then it did not meet the first condition and so was not morally responsible for the way the workers were being treated.

Quick Review 1.25
A Person is Morally Responsible for an Injury Only If:
• Person caused or helped cause the injury, or failed to prevent it when he or she could and should have.
• Person did so knowing what he or she was doing
• Person did so of his or her own free will

Notice that the first condition says that people are morally responsible for an injury when they failed to prevent it, only if they “should have” prevented it. This qualification is necessary because people cannot be held morally responsible for all the injuries they know about and fail to prevent. Each of us is not morally responsible, for example, for failing to save all the members of all the starving groups in the world that we learn about by reading the newspapers, even if we could have saved some of them. If we were morally responsible for all these deaths, then we would all be murderers many times over and this seems wrong. Instead, we must say that a person is responsible for failing to prevent an injury only when, for some reason, the person had an obligation to prevent that particular injury. Such an obligation generally requires some sort of special relationship to the injury or the injured party. For example, if I know that I am the only person near enough to save a drowning child, and I can do so easily, then my special physical relationship to the child creates an obligation for me to save the child. Therefore, I’m morally responsible for the child’s death if I fail to prevent it. Or if I am a police officer on duty and see a crime that I
can prevent, then, because it is specifically my job to prevent such crimes, I have an obligation to prevent this crime and am morally responsible if I fail to do so. Employers, likewise, have a special obligation to prevent work injuries from being inflicted on their employees and so are morally responsible for any foreseen work injuries they could have prevented.

The second requirement for moral responsibility is this: The person must know what he or she is doing. This means that if a person is ignorant of the fact that his or her actions will injure someone else, then he or she cannot be morally responsible for that injury. Ignorance, however, does not always excuse a person. One exception is when a person deliberately stays ignorant of a certain matter to escape responsibility. For example, if Nike managers told their suppliers that they did not want to know what was going on in their factories, they would still be morally responsible for whatever mistreatment went on that they could have prevented. A second exception is when a person negligently fails to take the necessary steps to find out about something he or she knows is important. A manager in an asbestos company, for example, who has reason to suspect that asbestos may be dangerous, but who fails to become informed on the matter out of laziness, cannot later plead ignorance as an excuse.

There are two kinds of ignorance. A person can be ignorant of either the relevant facts or the relevant moral standards. For example, I may be sure that bribery is wrong (a moral standard) but do not realize that by tipping a customs official I am actually bribing him or her into canceling the import fees I owe (a fact). Or I might be genuinely ignorant that bribing government officials is wrong (a moral standard), but know that by tipping the customs official, I am bribing him or her into reducing the fees I owe (a fact).

Ignorance of fact eliminates moral responsibility because a person cannot be responsible for something which he or she cannot control.95 Because people cannot control matters of which they are ignorant, they are not moral responsible for such matters. Negligently or deliberately created ignorance is an exception to this principle because such ignorance can be controlled. Insofar as we can control the extent of our ignorance, we become morally responsible for it and, therefore, also for its injurious consequences. Ignorance of the relevant moral standards generally also removes responsibility because a person is not responsible for failing to meet obligations of whose existence he or she is genuinely ignorant. However, to the extent that our ignorance of moral standards is the result of freely choosing not to figure out what these standards are, we are responsible for our ignorance and for its wrongful or injurious consequences.

The third requirement for moral responsibility is that the person must act of his or her own free will. A person acts of his or her own free will when the person acts deliberately or purposefully and is not forced to act by some uncontrollable mental impulse or external force. In other words, a person acts of his or her own free will when he or she chooses to do something for a reason or a purpose and is not forced to do it by some internal or external force over which he or she has no control. A person is not morally responsible, for example, if he or she causes an injury because he or she lacked the power, skill, opportunity, or resources to prevent the injury. Nor is a person morally responsible when he or she is physically forced to do something that injures another person or when a person’s mind is psychologically impaired in a way that prevents him or her from controlling his or her actions. An employee, for example, may injure a fellow worker when a machine he thought he knew how to operate suddenly swings out of his control. A manager working under extremely stressful circumstances may be so tense that one day she is overcome by rage at a subordinate and genuinely is unable to control her actions toward that subordinate. An engineer who is part of a larger operating committee may be unable to prevent the other committee
members from making a decision that the engineer feels will result in injury to other parties. In all these cases, the person is not morally responsible for the wrong or the injury because the person either did not choose the action deliberately or purposefully or was forced to act as he or she did. Mental impairments or external forces eliminate a person’s responsibility because, again, a person cannot have any moral responsibility for something over which the person had no control.

Although the absence of any of the three requirements (causality, knowledge, and freedom) will completely remove a person’s moral responsibility for a wrong, there are also several “mitigating factors” that can lessen a person’s moral responsibility depending on the severity of the wrong. Mitigating factors include: (a) circumstances that minimize but do not completely remove a person’s involvement in an act (these affect the degree to which the person caused the wrongful injury), (b) circumstances that leave a person somewhat uncertain about what he or she is doing (these affect the person’s knowledge), and (c) circumstances that make it difficult but not impossible for the person to avoid doing what he or she did (these affect the extent to which the person acted freely). The extent to which these three factors lessen a person’s responsibility for an injury depends on a fourth factor: (d) the seriousness of the wrong. To clarify these, we will next discuss each of them in turn.

First, a person’s responsibility can be mitigated by circumstances that diminish the person’s contribution to the act that caused or brought about an injury. An engineer may contribute to an unsafe product, for example, by knowingly drawing up an unsafe design and so fully contributes to the act that causes future injuries. In contrast, the engineer may know about the unsafe features in somebody else’s design, but he or she passively stands by without doing anything about it because “that’s not my job.” In such a case, the engineer makes less of a contribution to causing any future injuries. In general, the less one’s actual actions contribute to the outcome of an act, the less one is morally responsible for that outcome (depending, however, on how serious the wrong is). However, if a person is specifically assigned the duty to report or prevent certain wrongdoings, then that person is morally responsible for acts he or she does not try to prevent, even if the person makes no other contribution to the act. An accountant, for example, who was hired to report fraudulent activity cannot plead diminished responsibility for a fraud he or she discovers but does not report, even if the accountant pleads that he or she did not carry out the fraudulent act. In such cases where a person has a special (specifically assigned) duty to prevent an injury, freely and knowingly failing to try to prevent it is wrong. One is responsible for the act (along with the other guilty party or parties) if one should and could have prevented it but did not.

Second, circumstances can produce uncertainty about a variety of matters. A person may be fairly convinced that doing something is wrong yet may still be doubtful about some important facts, or may have doubts about the moral standards involved, or doubts about how seriously wrong the action is. For example, an office worker who is asked to carry proprietary information to a competitor might feel fairly sure that doing so is wrong, yet may also have some genuine uncertainty about how serious the matter is. Such uncertainties can lessen a person’s moral responsibility for a wrongful act.

Third, a person may find it difficult to avoid a certain course of action because he or she is subjected to threats or duress of some sort or because avoiding that course of action will impose heavy costs on the person. A middle manager, for example, might be pressured or even threatened by his or her superior who orders the manager to keep workplace hazards secret from workers, although it is clearly unethical to do so. If the pressures on a manager are so great that it is extremely difficult for him or her to disobey, then the manager’s responsibility is correspondingly diminished. Although the manager is to blame for the wrong, his or her blame is mitigated.
Fourth, the extent to which these three mitigating circumstances can diminish a person’s responsibility for a wrongful injury depends on how serious the wrong was. For example, if doing something is very seriously wrong, then even heavy pressures and minimal contribution may not substantially reduce a person’s responsibility for the act. If my employer, for example, threatens to fire me unless I sell a defective product that I know will kill someone, it would be wrong for me to obey him or her even though loss of a job will impose a heavy cost on me. However, if only a relatively minor matter is involved, then the threat of being fired can mitigate my responsibility. When determining your moral responsibility for a wrongful act, therefore, you have to judge your uncertainties, the difficulty of avoiding or preventing the act, and your level of contribution, and then weigh these three against how serious the wrong is. Judgments like these are often extremely difficult to make.

It may be helpful to summarize here the essential points of this somewhat long and complicated discussion of moral responsibility. First, an individual is morally responsible for an injury when (1) the person caused the injury or failed to prevent it when he or she could and should have done so, (2) the person knew what he or she was doing, and (3) the person acted of his or her own free will. Second, moral responsibility is completely eliminated (excused) by the absence of any of these three elements. Third, moral responsibility for a wrong or an injury is mitigated by (a) minimal contribution (although minimal contribution does not mitigate if you have a specific duty to prevent the wrong), (b) uncertainty, and (c) difficulty. But the extent to which these three factors lessen your responsibility depends on (d) how serious the wrong is: the more serious the wrong, the less these three factors mitigate.

Critics have contested whether all of the mitigating factors we have discussed above really affect a person’s responsibility. Some have claimed that evil may never be done no matter what personal pressures are exerted on a person. Other critics have claimed that I am as responsible when I refrain from stopping a wrong as I am when I perform the wrong myself because passively allowing something to happen is morally no different from actively causing it to happen. If these critics are correct, then mere passive involvement in something does not mitigate moral responsibility. Although neither of these criticisms seems correct, you should make up your own mind on the matter.

When we are accused of being responsible for some wrongdoing, either by others or by ourselves, we often resort to rationalization. Our hope is that the rationalization somehow excuses what we have done, i.e., that it eliminates or diminishes our responsibility. But unlike the factors we have discussed above (causality, knowledge, and freedom), many rationalizations do not affect responsibility for wrongdoing. Here, for example, are some popular rationalizations that we ourselves may use: “Everybody does it!” “There’s no rule against it!” “If I didn’t do it, somebody else would.” “The company owed it to me!” “There are worse things!” “I was just following orders.” “My boss made me do it!” “That’s not my job!” “They had it coming to them!” “People like that deserve what they get.” Some of these rationalizations, in special circumstances, may justify an injury we inflicted. But for the most part, they are inadequate attempts to escape responsibility that, in reality, is ours.

**Responsibility for Cooperating with Evil**

Within the modern corporation, responsibility for a corporate act is often distributed among many cooperating parties. Corporate acts normally are brought about by the actions or omissions of many different people all cooperating together so that their linked actions and omissions jointly produce the corporate act. For example, each
member of an executive committee may knowingly vote to do something fraudulent
and their resulting vote may license a corporate activity that defrauds stockholders;
one team of managers designs a car, another team tests it, and a third team builds it;
a manager orders something illegal and employees carry out those orders; one group
knowingly defrauds buyers and another group silently enjoys the resulting profits;
one person supplies the means and another person carries out the act; one group does
the wrong and another group conceals it. The possible variations on cooperation in
evil are endless.

Who is morally responsible for such jointly produced acts when the acts them-
selves are evil? The traditional view is that each person who knowingly and freely
cooperates to produce a corporate act is morally responsible for the act.99 In this
view, situations in which a person needs the help of others to bring about a wrong-
ful corporate act are no different in principle from situations in which a person
needs some tool or instrument to commit a wrong. For example, if I want to shoot
a person I have to rely on my gun to go off, just as if I want to defraud my com-
pany, I may have to rely on others to do their part. In both cases, if I knowingly and
freely bring about the wrong, even though I rely on other things or people, I am
fully morally responsible for the wrongs I inflict, even though this responsibility is
shared with others.

Critics of this traditional view of the individual’s responsibility for corporate
acts have claimed that when the members of an organized group such as a corpora-
tion act together, their corporate act should be attributed to the group and, conse-
quently, the corporate group and not the individuals who make up the group, must
be held responsible for the act.100 For example, we normally credit the manufacture
of a defective car to the corporation that made it and not to the individual engineers
involved in its manufacture. The law typically attributes the acts of a corporation’s
managers to the corporation (so long as the managers act within their authority)
and not to the managers as individuals. Traditionalists, however, can reply that,
although we sometimes attribute acts to corporate groups, this linguistic and legal
fact does not change the moral reality behind all corporate acts: Individuals had
to carry out the particular actions that brought about the corporate act. Because
individuals are morally responsible for the known and intended consequences of
their free actions, any individual who knowingly and freely joins his or her actions
together with those of others, intending thereby to bring about a certain corporate
act, will be morally responsible for that act.101

People sometimes claim, however, that when a subordinate acts on the orders
of a legitimate superior, the subordinate is absolved of responsibility for that act.
Only the superior is morally responsible for the wrongful act although the subordi-
nate was the one who carried it out. The loyal agent’s argument which we discussed
above was based on this very same claim: the argument says that if an employee
loyally does what the company ordered him or her to do, then it is the company,
not the employee, who should be held responsible. Several years ago, for example,
the managers of a company that made computer parts ordered their employees to
write a government report that falsely stated that the computer parts the company
sold to the government had been tested for defects when in fact they had not.102
Some employees objected to falsifying the government reports, but when the man-
gers insisted it was an order and the company wanted it, the employees complied
with their orders. When the falsified reports were discovered, the managers argued
that employees should not be held morally responsible because they were following
orders.

Quick Review 1.27
Moral Responsibility is not
Removed nor Mitigated by
• The cooperation of others
• Following orders
But the idea that following orders somehow absolves me of any blame for what I do is mistaken. As we have seen, I am responsible for whatever injuries I cause so long as I knew what I was doing and did it of my own free will. Therefore, when I knowingly and of my own free will cause an injury, the fact that I was following orders at the time does not change the reality that I fulfilled the three conditions that qualify me as morally responsible for my actions—causality, knowledge, and freedom—and so I am necessarily morally responsible for the injury. This is not to say that it is always easy to refuse to follow orders. In fact, it is often extremely difficult and can carry great personal costs. And as the Milgram experiment showed, most people are willing to obey the orders of an authority even when they know they are being ordered to do something wrong. Nevertheless, when I know that if I follow an order, I will be cooperating with evil, I must do everything I can to summon the strength and courage to refuse.

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**ON THE EDGE**

1. Are Bull’s Eye and Bushmaster morally responsible for the Washington, D.C. victims’ deaths? Why or why not?
2. Are gun manufacturers or gun dealers ever morally responsible for deaths caused by the use of their guns? Explain.
3. Are manufacturers ever morally responsible for deaths caused by the use of their products? Why or why not?

Questions for Review and Discussion

1. Define the following concepts: moral standards, non-moral standards, ethics, business ethics, normative study, descriptive study, systemic ethical issue, corporate ethical issue, individual ethical issue, corporate social responsibility, stakeholder, stakeholder theory, shareholder theory, globalization, ethical relativism, Integrative Social Contracts Theory, preconventional morality, conventional morality, post-conventional morality, moral reasoning, consistency requirement, framing a situation, euphemistic labeling, rationalizing our actions, diminishing comparisons, displacement of responsibility, diffusion of responsibility, distorting the harm, dehumanizing the victim, biased theory, moral seduction, weakness of will, strength of will, locus of control, moral responsibility, mitigated responsibility.

2. “Ethics has no place in business.” Discuss this statement.

3. In your judgment, did the managers of Merck have a moral obligation to spend the money needed to develop the drug for river blindness? Can you state the general moral standard or standards on which you base your judgment? Are you willing to apply the “consistency requirement” to your moral standard or standards?

4. Read again the account of B. F. Goodrich, Lawson, and Vandivier. Which, if any, of the “obstacles to moral behavior” do you see operating in this B. F. Goodrich situation?

5. “Kohlberg’s views on moral development show that the more morally mature a person becomes, the more likely it is that the person will obey the moral norms of his or her society.” Discuss this statement.

Web Resources

Readers who would like to research the general topic of business ethics on the Internet may want to begin by accessing the following web sites. The web site of Santa Clara University’s Markkula Center for Applied Ethics has outstanding articles and other content plus hundreds of annotated links to other Web resources on ethics at www.scu.edu/ethics. Larry Hinman’s Ethics Updates at the University of San Diego also has a large collection of articles and links to numerous topics in ethics at ethics.sandiego.edu. Still a useful resource for business ethics research on the Web is Sharon Stoeger’s web site which provides links to numerous online business ethics resources at www.web-miner.com/busethics.htm. The Essential Organization provides links to numerous organizations and data resources that deal with corporate social responsibility at www.essential.org. Corporate Watch has information on various companies and issues related to business ethics at www.corpwatch.org as does Resources for Activists at www.betterworldlinks.org/book100.htm, World Watch at www.worldwatch.org; and Mellenbaker’s web site on corporate social responsibility at www.mallenbaker.net/csr.

Slavery in the Chocolate Industry

Forty-five percent of the chocolate we consume in the United States and in the rest of the world is made from cocoa beans grown and harvested on farms in the Ivory Coast, a small nation on the western coast of Africa. Few realize that a portion of the Ivory Coast cocoa beans that goes into the chocolate we eat was grown and harvested by slave children. The slaves are boys between 12 and 16—but sometimes as young as 9—who are kidnapped from villages in
surrounding nations and sold to the cocoa farmers by traffickers. The farmers whip, beat, and starve the boys to force them to do the hot, difficult work of clearing the fields, harvesting the beans, and drying them in the sun. The boys work from sunrise to sunset. Some are locked in at night in windowless rooms where they sleep on bare wooden planks. Far from home, unsure of their location, unable to speak the language, isolated in rural areas, and threatened with harsh beatings if they try to get away, the boys rarely attempt to escape their nightmare situation. Those who do try are usually caught, severely beaten as an example to others, and then locked in solitary confinement. Every year unknown numbers of these boys die or are killed on the cocoa farms that supply our chocolate.

The plight of the enslaved children was first widely publicized at the turn of the twenty-first century when True Vision, a British television company, took videos of slave boys working on Ivory Coast farms and made a documentary depicting the sufferings of the boys. In September 2000, the documentary was broadcast in Great Britain, the United States, and other parts of the world. The U.S. State Department, in its Year 2001 Human Rights Report, estimated that about 15,000 children from the neighboring nations of Benin, Burkina Faso, Mali, and Togo had been sold into slavery to labor on Ivory Coast farms. The International Labor Organization reported on June 11, 2001 that child slavery was indeed “widespread” in Ivory Coast and a Knight-Rider newspaper investigation published on June 24, 2001 corroborated the use of slave boys on Ivory Coast cocoa farms. In 2006, The New York Times reported that child slavery continued to be a problem in West Africa. In 2007, BBC News published several stories on the “thousands” of children who were still working as slaves on cocoa farms in Ivory Coast. Fortune Magazine in 2008 reported that slavery in the Ivory Coast was still a continuing problem, and a BBC documentary entitled Chocolate: The Bitter Truth, broadcast on March 24, 2010, a decade after the use of slave boys in the chocolate industry was first revealed, showed young boys were still being used as slaves on cocoa farms in the Ivory Coast.

Although slavery is illegal in the Ivory Coast, the law is poorly enforced. Open borders, a shortage of enforcement officers, and the willingness of local officials to accept bribes from people trafficking in slaves, all contribute to the problem. In addition, prices for cocoa beans in global markets have been depressed most years since 1996. As prices declined, the already impoverished cocoa farmers turned to slavery to cut their labor costs. Although prices began to improve during the early years of the twenty-first century, cocoa prices fell again in 2004 and remained low until the summer of 2010 when they again began to rise.

The poverty that motivated many Ivory Coast cocoa farmers to buy children trafficked as slaves was aggravated by other factors besides low cocoa prices. Working on isolated farms, cocoa farmers cannot communicate among themselves nor with the outside world to learn what cocoa is selling for. Consequently they are at the mercy of local middlemen who drive out to the farms, buy the farmers’ cocoa for half of its current market price, and haul it away in their trucks. Unable to afford trucks themselves, the farmers must rely on the middlemen to get their cocoa to market.

Chocolate is a $13 billion industry in the United States which consumes 3.1 billion pounds each year. The names of the four largest U.S. chocolate manufacturers—all of whom use the morally “tainted” cocoa beans from the Ivory Coast in their products—are well known: Hershey Foods Corp. (maker of Hershey’s milk chocolate, Reeses, and Almond Joy), M&M Mars, Inc. (maker of M&Ms, Mars, Twix, Dove, and Milky Ways), Nestlé USA, (maker of Nestlé Crunch, Kit Kat, Baby Ruth, and Butterfingers), and Kraft Foods (which also uses chocolate in its baking and breakfast products). Less well known, but a key part of the industry, are the names of Archer Daniels Midland Co., Barry Callebaut, and Cargill Inc., all of whom serve as middlemen who buy the beans from the Ivory Coast, grind and process them, and then sell the processed cocoa to the chocolate manufacturers.

While all the major chocolate companies used beans from Ivory Coast farms, a portion of which relied on the labor of enslaved children, many smaller companies avoided using chocolate made from Ivory Coast beans and instead turned to using chocolate processed from “untainted” beans grown in other parts of the world. These companies include: Clif Bar, Cloud Nine, Dagoba Organic Chocolate, Denman Island Chocolate, Gardners Candies, Green and Black’s, Kailua Candy Company, Koppers Chocolate, L.A. Burdick Chocolates, Montezuma’s Chocolates, Newman’s Own Organics, Omahene Cocoa Bean Company, Rapunzel Pure Organics, and The Endangered Species Chocolate Company. Other small companies turned to using fair trade chocolate and organic chocolate because these are made from beans grown on farms that are regularly monitored and so they, too, are made from untainted beans.

That many farmers in the Ivory Coast use slave boys to farm their cocoa beans was already known to American chocolate-makers when media reports first began publicizing the issue. In 2001, the Chocolate Manufacturers Association, a trade group of U.S. chocolate manufacturers (whose members include Hershey, Mars, Nestlé, and others), admitted to newspapers that they had been aware of the use of slave boys on Ivory Coast cocoa farms for some time. Pressured by various antislavery groups, the Chocolate Manufacturers Association stated on June 22, 2001 that it “condemned” “these practices” and agreed to fund a “study” of the situation.
On June 28, 2001, U.S. Representative Eliot Engel sponsored a bill aimed at setting up a labeling system that would inform consumers whether the chocolate they were buying was “slavefree,” i.e., guaranteed not to have been produced by slave children. The measure passed the House of Representatives by a vote of 291 to 115. Before a measure can become law, however, both the House of Representatives and the Senate must approve it. U.S. Senator Tom Harkin therefore prepared to introduce the same bill in the Senate. Before the Senate could consider the bill, the U.S. chocolate industry—led by Mars, Hershey, Kraft Foods and Archer Daniels Midland and with the help of lobbyists Bob Dole and George Mitchell—mounted a major lobbying effort to fight the “slave-free” labeling system. The companies argued that a labeling system would not only hurt their own sales, but in the long run could hurt poor African cocoa farmers by reducing their sales and lowering the price of cocoa which would add to the very pressures that led them to use slave labor in the first place. As a result of the industry’s lobbying, the “slave-free” labeling bill was never approved by the Senate. Nevertheless, Representative Engel and Senator Harkin threatened to introduce a new bill that would prohibit the import of cocoa produced by slave labor, unless the chocolate companies voluntarily eliminated slave labor from their production chains.

On October 1, 2001, the members of the Chocolate Manufacturers Association and the World Cocoa Foundation, caught in the spotlight of media attention, announced that they intended to put in place a system that would eliminate “the worse forms of child labor” including slavery. In spring of 2002, the Chocolate Manufacturers Association and the World Cocoa Foundation as well as the major chocolate producers—Hershey’s, M&M Mars, Nestle, and World’s Finest Chocolate—and the major cocoa processors—Blommer Chocolate, Guittard Chocolate, Barry Callebaut, and Archer Daniels Midland—all signed an agreement to establish a system of certification that would verify and certify that the cocoa beans they used were not produced by the use of child slaves. Known as the “Harkin-Engel Protocol,” the agreement also said the chocolate companies would fund training programs for cocoa bean farmers to educate them about growing techniques while explaining the importance of avoiding the use of slave labor. The members of the Chocolate Manufacturers Association also agreed to “investigate” conditions on the cocoa farms and establish an “international foundation” that could “oversee and sustain efforts” to eliminate child slavery on cocoa farms. In July, 2002, the first survey sponsored by the Chocolate Manufacturers Association concluded that some 200,000 children—not all of them slaves—were working in hazardous conditions on cocoa farms and that most of them did not attend school.

Unfortunately, in 2002, Ivory Coast became embroiled in a civil war that continued until an uneasy peace was established in 2005 and finalized in 2007; rebel forces, however, continued to control the northern half of the country. Reports claimed that much of the money funding the violence of both the government and rebel groups during these years came from sales of cocoa, and that buyers of “blood chocolate” from Ivory Coast were supporting this violence.

The 2005 deadline the major chocolate companies and their associations had set, came, and passed without the promised establishment of a certification system to ensure beans were not being produced by slave children. At this point, the chocolate companies amended the protocol to give themselves more time by extending their own deadline to July, 2008, saying that the certification process had turned out to be more difficult than they thought it would, particularly with the outbreak of a civil war. Although the companies did not establish a certification system while the civil war raged, however, they did manage to secure enough cocoa beans to keep their chocolate factories going at full speed throughout the war.

By early 2008, the companies had still not started work on establishing a certification system or any other method of ensuring that slave labor was not used to produce the cocoa beans they used. The companies issued a new statement in which they extended to 2010 the deadline for complying with their promise to establish a certification system. According to the companies, they had been investing several million dollars a year into a foundation that was working on the problem of child labor. However, an investigative reporter, in an article published in Fortune Magazine on February 15, 2008, found the foundation had only one staff member working in Ivory Coast. The activities of the staff member were limited to giving “sensitization” workshops to local people during which he would explain that child labor is a bad thing. The foundation was also helping a shelter that provided housing and education to homeless street children. The reporter found no signs of work being done on a certification system. By now the monitoring systems used in the fair trade and organic parts of the industry had been functioning for several years, yet the larger companies operating in Ivory Coast seemed unable or uninterested in learning from their example.

The existence of a large and well-organized system for trafficking children from surrounding countries onto Ivory Coast farms was once again demonstrated on June 18, 2009. On that date INTERPOL, the international police organization, carried out a series of raids of several farms believed to harbor slave children and managed to rescue 54 children. Aged between 11 and 16, the children had been working 12 hours a day for no salary; many were regularly beaten and none had received any schooling. In
a public statement, INTERPOL estimated that “hundreds of thousands of children are working illegally in the plantations.”

On September 30, 2010, the Payson Center at Tulane University issued a report on the progress that had been made on the certification system the chocolate industry in 2002 had promised to establish, as well as on the progress the industry had made regarding its promise to eliminate “the worse forms of child labor,” including child slavery, on the farms from which the industry sourced its cocoa. The report was commissioned by the United States Department of Labor who had been asked by Congress to assess progress on the “Harkin-Engel Protocol,” and who gave Tulane University an initial grant of $4.3 million in 2006, and an additional $1.2 million in 2009 to compile the report. According to the report, “Industry is still far from achieving its target to have a sector-wide independently verified certification process fully in place . . . by the end of 2010.” The report found that between 2002—the date of the original agreement—and September 2010, the Industry had managed to contact only about 95 (2.3 percent) of Ivory Coast’s cocoa farming communities, and that to complete its “remediation efforts” it would have to contact an additional 3,655 farm communities. While the Tulane group “confirmed” that forced labor was being used on the cocoa farms, it also found that no industry efforts to “remediate” the use of forced labor “are in place.”

Not surprisingly, the problem of certification still remained unresolved in 2011. After the media attention had died down, the manufacturers and distributors buying Ivory Coast cocoa beans seemed incapable of finding a way to “certify” that slavery was not used to harvest the beans they purchased. Representatives of the chocolate companies argued that the problem of certification was difficult because there are more than 600,000 cocoa farms in Ivory Coast; most of them small family farms located in remote rural regions that are difficult to reach and that lack good roads and other infrastructure. Critics, however, pointed out that these difficulties did not seem to pose any obstacles to obtaining beans from these many scattered cocoa farms. Cocoa bean farmers, poor and buffeted by the low price of cocoa beans, continued to use enslaved children although they were secretive about it. To make matters worse, on February 2011, fighting between the rebels in the north and the Ivory Coast government in the south again broke out for a brief period in a dispute over who was the legitimate winner of the 2010 presidential election. The fighting ended in April 2011 when one of the candidates finally conceded the election, allowing Allassane Ouattara to be declared the legitimate president.

In 2010 another film, this one entitled The Dark Side of Chocolate, once more documented the continuing use of enslaved children on Ivory Coast farms, although representatives of the chocolate companies interviewed in the film denied the problem or claimed they did not know anything about it. The beans tainted by the labor of slave boys are therefore still being quietly mixed together in bins and warehouses with beans harvested by free paid workers, so that the two are indistinguishable. From there they still make their way into the now tainted chocolate candies that Hershey’s, M&M Mars, Nestle and Kraft Foods make and that we buy here and in Europe. Without an effective system of certification, in fact, virtually all the chocolate we eat that is made from West African (Ivory Coast and Ghana) cocoa contains a portion of tainted chocolate made from beans harvested by enslaved children.

Questions

1. What are the systemic, corporate, and individual ethical issues raised by this case?
2. In your view, is the kind of child slavery discussed in this case absolutely wrong no matter what, or is it only relatively wrong, i.e., if one happens to live in a society (like ours) that disapproves of child slavery? Explain your view and why you hold it.
3. Who shares in the moral responsibility for the slavery occurring in the chocolate industry?
4. Consider the bill that Representative Engle and Senator Harkin attempted to enact into a law, but which never became a law because of the lobbying efforts of the chocolate companies. What does this incident show about the view that “to be ethical it is enough for businesspeople to follow the law”?

Note

Aaron Beam and the HealthSouth Fraud

After graduating from Ourso College of Business, Aaron Beam went on to become a Certified Public Accountant in 1978 and two years later met Richard Scrushy whom he described as a “charismatic” leader, an engagingly “charming” person, and a “brilliant” businessman. At the time Scrushy was working for Lifemark Corporation, a health care company where he had worked his way up to the position of Chief Operating Officer after having taught briefly in the respiratory therapy program of the University of Alabama and at Wallace State Community College. In 1983 Scrushy invited Beam to join him in starting HealthSouth, a new company that would provide medical rehabilitation services to hospitals and their outpatients in Birmingham, Alabama. Scrushy believed that they would be able to provide rehabilitation therapy to patients at lower costs than regular hospitals and so hospitals would be glad to send their patients to them for rehabilitation. He would turn out to be right.

They founded the company in 1984 with Scrushy as Chief Executive Officer and Beam as Chief Financial Officer. Beam later said that Scrushy ran the company like a “dictator,” and with a self-assurance that intimidated people and sometimes made Aaron and others fearful of contradicting him. Scrushy, he said, was “almost a cult-like figure,” who inspired intense loyalty and whom people eagerly followed, willingly carrying out his confident orders. Another employee said Scrushy “had boundless energy” and “was a great motivator” who worked “so hard himself, it was almost like you couldn’t let him down.”

From the beginning Scrushy and Beam both knew the company had to appear profitable to satisfy investors and lenders and to later succeed in issuing and selling company stock to the public. Although the company was doing reasonably well, Scrushy told Beam that he should do whatever he could to make their financial reports look even better. Although Beam was reluctant at first, he felt both pressured and awed by Scrushy and so eventually moved some of the company’s startup costs from the “expenses” column to the “capital investments” column, which made their net profits look larger. While he realized this might be “a little” misleading, Beam felt it was technically within the bounds of accounting rules and that investors would be sophisticated enough to understand what was happening. He described the move to himself as “aggressive accounting” but definitely “not fraudulent.”

In 1986, the company successfully went public and both Scrushy and Beam, as well as their investors, made a great deal of money. Moreover, the company continued to expand rapidly and revenues continued to climb upward just as quickly. With his new riches, Beam was able to buy a beach house, a condo in the French Quarter of New Orleans, a private plane, fancy cars, and $30,000 worth of Hermes ties. Everywhere he went he was known and respected:

I was a rock star. I could go into any restaurant and see people pointing out that they wanted to talk to me, meet me and tell me what a great job I was doing. It was pretty heavy stuff.

Scrushy also celebrated his new wealth. He had divorced his first wife and married his second, a woman named Karen with whom he had four children and a passionate but stormy relationship. He bought two Cessna jets, Lamborghini and Rolls Royce cars, ten yachts, expensive art works, several multimillion-dollar houses, and built himself an estate with a 20-room 14,000 square foot mansion and a helicopter pad. He made lavish donations to charities, gave money to schools that gratefully named buildings after him, and made such a large gift to a local community college that it named a whole campus the “Richard M. Scrushy Campus.” In high school Scrushy had taught himself to play the guitar and had played in garage bands; now he recruited several professional musicians, formed a country music group named Dallas County Line, and with himself as lead singer, cut a CD and financed a world tour for the group.

Over the next ten years the HealthSouth company grew into a $3 billion Fortune 500 company. With 22,000 employees, it was the nation’s largest provider of rehabilitation, surgery, and therapy outpatient services. Beam continued using “aggressive accounting” practices in the company’s financial reports. When the company expanded to other locations, he had some of the costs capitalized instead of being expensed, and sometimes the added revenues from the new locations were listed as revenue growth instead of being expensed, and sometimes the added revenues from the new locations were listed as revenue growth from the company’s previous locations. And instead of writing off unpaid receivables, Beam just kept them on the books as company “assets.” He continued to reassure himself with the thought that “astute investors knew what we were doing and saw it as financial gamemanship and not outright fraud.”

But part way through the second quarter of 1996, Scrushy and Beam realized that the company, for the first time, would fall short of meeting Wall Street analysts’ expectations of quarterly revenue by about $30 million. The two men were sure this was a one-time event and that the company would return to meeting analysts’
targets the following financial quarter like it had for the past 40 quarters. But at the time, the company was negotiating a new credit agreement with a syndicate of 32 lenders from around the world, and while the banks had agreed to extend HealthSouth a line of credit totaling $1.25 billion, they had also made clear that the company had to provide them with favorable quarterly financial statements. Scrushy assured Beam that if the banks got wind of the shortfall it would cripple the company they had worked so hard to build, so Beam had to do everything he could to keep as much information about the shortfall as possible from leaking out of the company. If they could just get through the quarter, Scrushy felt, then everything would be okay.8

Agreeing with Scrushy’s assessment of the situation, Beam decided to fix the company books “this one time.” “I knew if we did report bad earnings, it would be disastrous,” Beam said later, so “I let myself slip into agreeing to commit fraud.” Beam convinced two of the people working for him in the Finance Department to come in on the plan: Bill Owens, the company controller, and Mike Martin, the company treasurer. With the help of a few other employees, they went through the earnings reports that each of the dozens of HealthSouth clinics scattered around the country turned in to company headquarters each financial quarter. They carefully inflated the numbers by inserting many small additional revenue entries throughout each report. Then they consolidated the reports into a single corporate report.9 The numerous fictitious additions they made on the reports were all small because they knew the external auditors would only check the validity of large revenue entries, and were highly unlikely to check the many small fictitious entries they were making.10 Moreover, Scrushy had earlier told Beam that he did not allow the company’s own internal auditors access to the corporate general ledgers, which is where the fraud was being carried out.

Although he realized these actions violated generally accepted accounting principles, Beam felt that what he was doing was for the good of everyone in the company. If the company failed, a lot of people would be hurt. And anyway, he was only going to do it just this one time.

Unfortunately, the following quarter company earnings again fell short of Wall Street expectations. This time Scrushy did not have to persuade Beam. After the first time, Beam later said, it had become “a little easier going down that road.”11 The fraud proceeded much like it had the previous quarter, except that more people were brought into the scheme. Ken Livesay, the assistant controller, helped by downloading all of the clinic reports from around the country to his computer and figuring out the gap between the company’s true earnings and what Wall Street expected—about $70 million this time.12 He reported these figures to Bill Owens and Mike Martin. Then Beam, Owens, Martin, Livesay, and a few others worked their way through the clinics’ reports inserting enough fictitious revenue entries to fill in the gap. Because earnings kept falling short of expectations, the process had to be repeated each quarter. Eventually more finance personnel were added to the group until it grew to about 15 people who started referring to themselves as “the family.”

By 1997 HealthSouth was the largest rehabilitation services company in the industry and, with a total of $106 million in compensation, Scrushy was the third-highest-paid CEO in America. A year earlier his second wife had divorced him and now he married his third, Leslie, with whom he had two more children. He became an active member of the Guiding Light Church to which he made sizable donations, and he and his wife eventually began hosting a daily evangelical television show that was broadcast from the church.

Although he was now hardly hesitating to tamper with the company reports, Beam still felt anguish and guilty:

I just didn’t have the courage or the ethical bearing to stand up to Richard. I didn’t say ‘No, this is wrong.’ My life changed. I couldn’t sleep. I had crossed the line and had done something I couldn’t deal with and it was just terrible.13

Ashamed of what he was now so willingly doing, Beam decided to retire from the company in 1997. He bought several acres of land in the country and there he and his wife built their 5,000 square-foot “dream house.” Beam assumed the company’s earnings would eventually improve and that it would once again do well enough to stop having to falsify its financial reports. He was wrong.

The fraudulent accounting at HealthSouth continued for six more years, until 2003 when the F.B.I. began investigating whether Scrushy might be part of an insider trading scheme. As part of its investigation, the F.B.I. interviewed Weston Smith who had replaced Beam as Chief Financial Officer. Smith had little to say about the insider trading scheme; instead he informed the surprised investigators about the fraud that had been going on at HealthSouth.

By the time the government stepped in and prosecuted HealthSouth’s executives in 2003, HealthSouth’s earnings had been overstated by $2.7 billion. In 2005, saying he did not know that fraudulent entries were being inserted into the books, and in spite of being accused by Beam, Smith, Martin, Owens, Livesay, and others of having known about the scheme, Scrushy was declared
Aaron Beam now runs a lawn service called “Green Beam Lawn Service” in Alabama using a lawnmower he bought by bartering 50 of his last remaining Hermes ties. He has this to say about his present life:

I have no employees, it’s just me. But I’m living my life honestly now, and there is a lot of peace of mind in that. When I mow somebody’s grass, and they pay me $50 in the heat in south Alabama, I know I’ve earned that money, and I sleep well at night.15

Questions

1. Which of the “obstacles” to moral behavior do you see at work in Aaron Beam’s behavior and thinking? In Scrushy’s?
2. Explain how Aaron Beam might have used the “loyal agent’s argument” to defend his actions. Do you think that in Aaron Beam’s situation the “loyal agent’s argument” might have been valid? Explain.
3. In terms of Kohlberg’s views on moral development, at what stage of moral development would you place Aaron Beam? Explain. At what stage would you place Richard Scrushy?
4. Was Aaron Beam morally responsible for engaging in the “aggressive accounting” methods he used? Explain. Was his responsibility mitigated in any way? Explain. Was he morally responsible for changing the clinic reports to increase the company’s earnings? Was his responsibility for this mitigated? Explain. Were those who cooperated in his actions morally responsible for those actions? Was their responsibility mitigated? Do you think Richard Scrushy was morally responsible for the accounting fraud? Explain.

Notes


13. *University of Texas News*, “Auditors Get an Insider’s View of Corporate Fraud.”


15. Chiotakis, “How HealthSouth Started a Fraud.”