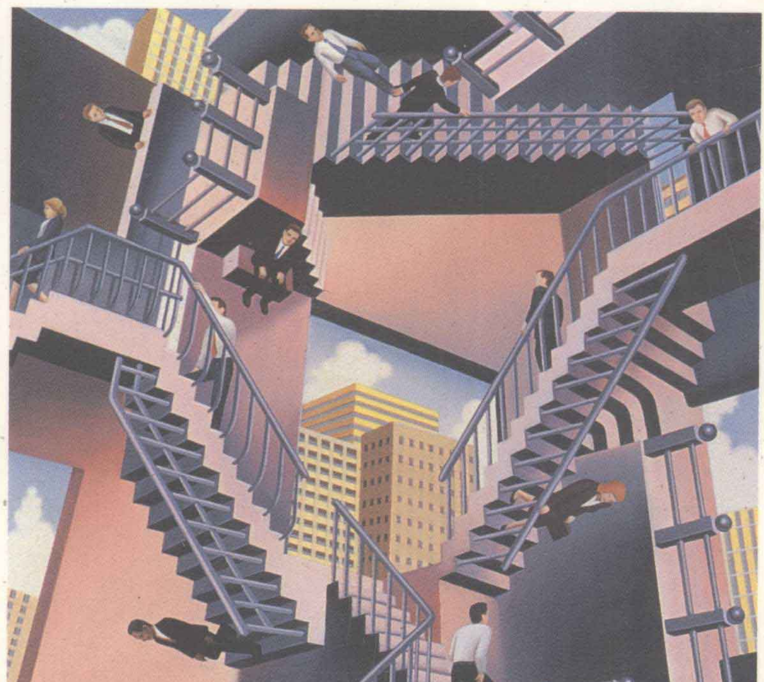
Fourth Edition

ETHICAL ISSUES IN BUSINESS

A PHILOSOPHICAL APPROACH



THOMAS DONALDSON
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ETHICAL ISSUES IN BUSINESS

A Philosophical Approach

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Preface

The fourth edition of *Ethical Issues in Business* brings great satisfaction to its originators—for surely no one can predict continued success for one's efforts. In this instance the satisfaction is linked not only to past success but also to present demands. The demands arise from the field of business as well as business ethics, fields which are tied to the changing economic and ethical relationships in our society and in multicultural contexts. It is this context that demands that the published discussions remain relevant.

Some theoretical perspectives do maintain relevance throughout the historical flux. The insights of Adam Smith or the challenges of Karl Marx are no less relevant today than in the eighteenth or nineteenth centuries. Yet others are clearly time-bound. When the first edition of this book appeared, Three Mile Island and Chernobyl had not darkened our knowledge of the atom, computers were clever gadgets with few ethical implications, and Ivan Boesky had not yet discovered insider trading. New issues have appeared since the third edition. Consequently, the present volume contains many new case studies including ones dealing with mergers, women in the workplace, AIDS, Bhopal, the Exxon Valdez incident, plant relocation, and manufacturing in the third world.

Happily, challenging problems in business have been accompanied by a rapidly growing business ethics literature. Upon the appearance of the first edition in 1979, *Ethical Issues in Business* was only one of three texts in business ethics; by 1983, upon the appearance of the second edition, the selection had grown to ten or fifteen, and today there are at least fifty textbooks. Along with the growth of college teaching materials has been an explosion in the production of articles, cases, and commentaries. The present edition takes advantage of this abundance and contains many new articles including ones on relativism, moral agency, stakeholder theory, rational choice and economic efficiency, employment at will, environmental ethics, and women as managers.

The present edition, as the earlier ones, has not been simply the product of its editors, but owes greatly to those whose suggestions, criticisms, and editorial assistance made it a better book. These include Thomas Carson, Kendall D'Andrade, A. R. Gini, Mark Schneider, and a number of blind reviewers for Prentice Hall. We also want to thank Cynthia Rudolph for her excellent organizational and secretarial skills without which there would not have been a fourth edition, and we are indebted to the patience of the editors at Prentice Hall.

THOMAS DONALDSON

PATRICIA H. WERHANE

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General Introduction

There is one and only one social responsibility of business . . . to i..crease its profits. . . .

MILTON FRIEDMAN

Business executives and the companies they serve have a personal and vested interest in the resolution of ethical and social responsibility dilemmas.

STEVEN BRENNER AND EARL MOLANDER

It has often been suggested—though perhaps in jest—that the idea of business ethics constitutes a contradiction in terms. "Business is business," it has been said, "and ethics is not business." Yet each day we hear of the controversies about discrimination in hiring, consumer rights, deceptive advertising, bribery and payoffs, and pollution problems of such magnitude that we cannot remain unaffected.

Ethical problems in business are as old as business itself. Just as we are acutely aware of the problems surrounding the Ivan Boesky case or the Bhopal tragedy, earlier generations were aware of other ethical problems in business. Names such as the "Teapot Dome scandal" or the "Mississippi bubble" are not familiar today, but they were once as well known as "Boesky" and "Bhopal" are now. The issues about which there has been public concern include trusts and monopolies, child labor, working hours and conditions, meat packing standards, the distribution of salaries, and the liability of producers for dangerous products. Not only complaints but attempts at reform have a long and interesting history. The Code of Hammurabi, written nearly two thousand years before Christ, records the fact that Mesopotamian rulers attempted to legislate honest prices from local merchants by instituting wage and price controls.

To explain the special relationship between business and ethics, it is necessary to see how focusing merely on problems of business efficiency and profit making may overlook important moral issues. For example, when the manufacture of a certain product can eventually be linked to human disease or a decrease in the quality of human life, then the issues surrounding it are no longer simply traditional "business" issues. No amount of expertise in marketing, accounting, or management can deal adequately with such problems, and yet they are clearly connected to the activities of the business world. Nor can situations like these be reduced simply to legal problems, understandable only to the lawyer. When Ralph Nader claimed in the late 1960s that General Motors was producing automobiles which, despite their many consumer advantages, were contributing to thousands of highway deaths each year, he was not arguing that GM's practices were against the law—because at that time they were not illegal at all. Rather, Nader was arguing that General Motors had special obligations to its consumers, which were not simply of a traditional business nature, and that the company was not living up to them. Those obligations were *ethical* or *moral* ones.

It appears, then, that confronting questions like those implied by the Nader case—such as, Does business have an obligation to its consumers (or to others) which extends beyond its obligation to make a profit and satisfy its investors?—means confronting ethical and moral issues. The words *ethical* and *moral* in this book are not simply used as they might be by a modern newspaper, for example, "That movie is thoroughly immoral" (meaning, "That movie is pornographic"). Instead, they are used as philosophers have traditionally used them, as words that arise from the study of what is good or right. Although there is dispute even among philosophers over how to define the subject matter of ethics, most would agree that it includes the study of what people ought to pursue, that is, what the *good* is for people, or alternatively, the determination of which actions are the *right* actions for people to perform. Such general definitions may leave one with the feeling that studying ethics must be a hopelessly vague task; yet interestingly, ethical philosophers have succeeded in presenting a great many detailed ethical theses and in conducting a number of successful investigations into specific ethical topics.

The word *ethics*, then, refers generally to the study of whatever is right and good for humans. The study of *business* ethics seeks to understand business practices, institutions, and actions in light of some concept of human value. Traditional business ends—e.g., profit making, growth, or technical advance—are certainly relevant to the subject of business ethics insofar as they can be related to the achievement of some more human good. In other words, business ethics looks at corporate profits not for their own sake but with respect to the achievement of some basic human good, perhaps increased investor satisfaction, higher levels of employment, or increased capacity to improve working conditions.

Because business ethics involves relating business activities to some concept of human good, it is a study which has as one of its aspects the *evaluation* of business practices. Indeed, most of the fundamental criticisms and commendations of contemporary business practices are cast in terms of how modern business either contributes or fails to contribute to the general human good. For example, when modern corporations are criticized for their failure to respond to environmental needs by limiting the amount of pollutants they discharge, they are being evaluated on ethical grounds; the charge is that they are neglecting the public good. Alternatively, when businesses are praised for achieving high levels of efficiency and satisfying consumer needs, it is implied that efficiency and consumer satisfaction contribute directly to the sum total of human good. Even traditional conservative economic theory justifies economic practices in the light of their contribution to human good.

Another aspect of the evaluative dimension in business ethics—or any ethical study—is seen in the contrast between evaluation and simple description. There is special difference between answering a moral question and answering a question in the areas of, say, marketing and economics. In the latter, it is often sufficient to establish the immediate facts which pertain to the subject. For example, if one hopes to determine the best advertising strategy for the introduction of a new product, one would only need to determine that a certain advertising strategy will have, as a matter of fact, the desired effect, i.e., that it *will* sell the product. It is usually possible in such cases to utilize indicators which more or less establish whether or not a given strategy will be effective: consumer polls, trends in sales, etc. These indicators are then used as factual information upon which one's strategy is based.

However, answering an ethical question may demand very different methods. Determining the immediate and specific facts may only be the first step in a long process which, in the end, may take one far beyond immediate facts. For example, if one wants to determine whether discriminatory hiring practices by corporations *ought* to be corrected by instituting affirmative action programs that favor women and minorities, there may be no question at all about the immediate facts. Two people could thoroughly agree that discrimination of a certain type has taken place and that blacks and women need equal job opportunities to reach relevant levels of social equality. Yet, after agreeing on all these facts the two people may still disagree—and disagree vehemently—over whether affirmative action programs *ought* to be imposed in the wake of past discriminatory practices. Thus, solving an ethical problem may require making *evaluative* judgments about issues which seem far removed from the facts at hand.

Even though business ethics focuses primarily on evaluative issues, its scope is surprisingly large. Insofar as it is concerned with relating business practices to some concept of human good, almost any business issue that relates to human values may become part of its subject matter. Thus the scope of business ethics includes such issues as

1. advertising practices, for example, false or misleading advertising;
2. product safety;
3. monopolistic price schemes and their effects on the consumer;
4. the pursuit of profits;
5. employee rights, including rights to free speech and due process;

6. the treatment of workers, including wages, working conditions, worker participation, and access to pension plans and benefits;
7. economic and environmental effects of pollution;
8. uses of natural resources;
9. multinational operations, including manufacturing and sales of products in other countries;
10. "sensitive payments" to foreign governments, foreign agents, or local politicians;
11. stakeholder concerns;
12. the proper roles of shareholders, management, government, and the public in determining corporate policy;
13. discriminatory hiring policies, conditions, and policies of advancement;
14. drugs and AIDS in the workplace;
15. plant relocation;
16. consumer liability, customer rights and responsibilities;
17. mergers and acquisitions;
18. insider trading;
19. the limits of free enterprise and regulation.

The analysis of such issues requires a systematic investigation of both general ethical theory and specific business practices. To accomplish this goal the editors of this anthology have selected a series of writings which includes not only theoretical and philosophical material relevant to business practices but actual case descriptions of ethical problems found in the business world. Much of the philosophical material has gained wide support in traditional ethical philosophy, and the cases include ones that have had a dramatic impact upon our society.

The advantage of investigating ethical problems from a philosophical point of view should be apparent. One cannot successfully examine a case involving payments made by U.S. corporations to foreign governments, for example, until one has considered the more general issue of whether differing ethical attitudes in the United States and in foreign countries affect the morality of such actions. Thus studying the contributions of philosophers can be of great help in sorting out the issues and solving ethical dilemmas.

However, this book has not attempted to provide a list of ethical codes of conduct. Such codes have sometimes proven unsuccessful in achieving their presumed purpose. More importantly, their existence can imply something false about the field of business ethics: that the work needed to understand ethical issues can be unnecessary, and that serious issues can be resolved simply by writing and studying lists of ethical rules and codes. The essays and cases in this book, then, are intended to stimulate discussion of ethical issues and provide grounds for justifying ethical decisions in business. But the actual solution of ethical dilemmas is left to the reader.

Introduction to Ethical Reasoning

THOMAS DONALDSON AND PATRICIA H. WERHANE

What is the basis for making ethical decisions? Should Joan challenge Fred the next time he cracks a chauvinist joke? Should John refrain from lying on his job application despite his temptation to do so? What, if anything, should make Hillary decide that eating meat is corrupting, whereas vegetarianism is uplifting? It is obvious that the kind of evidence required for an ethical decision is different from that needed to make a nonethical one; but what is the nature of the difference? These questions give rise to a search for a *method* of ethical justification and decision making, a method that will specify the conditions that any good ethical decision should meet.

To see how such questions arise concretely, consider the following case.[1]

> Some years ago, a large German chemical firm, BASF, decided to follow the lead of many other European firms and build a factory in the United States. BASF needed land, lots of it (1,800 acres), an inexpensive labor pool, almost 5 million gallons of fresh water every day, a surrounding area free of import taxes, and a nearby railroad and ocean port. Obviously, only a handful of locations could meet all these requirements. The spot the company finally picked seemed perfect, an area near the coast of South Carolina called Beaufort County. It purchased 1,800 acres.
>
> South Carolina and Beaufort County were pleased with BASF's decision. The surrounding area, from which the company would pick its workers, was economically depressed and per capita income stood well below the national average. Jobs of any kind were desperately needed. Even the Governor of South Carolina and his staff were eager for BASF to build in South Carolina, and although BASF had not yet finalized its exact production plans, the State Pollution Central Authority saw no problems with meeting the State pollution laws. BASF itself said that although it would dump chemical byproducts into the local Colleton River, it planned not to lower the river's quality.
>
> But trouble started immediately. To see why, one needs to know that Beaufort County is the home of the internationally famous resort area called "Hilton Head." Hilton Head attracts thousands of vacationers every year—most of them with plenty of money—and its developers worried that the scenic splendor of the area might be marred by the air and water pollution. Especially concerned about water pollution, resort developers charged that the proposed chemical plant would pollute the Colleton River. They argued that BASF plants in Germany had polluted the Rhine and, in Belgium, the Schelde River. Further, they noted that on BASF's list of proposed expenditures, pollution control was allocated only one million dollars.
>
> The citizens of Beaufort County, in contrast to the Hilton Head Developers, welcomed BASF. They presented the company with a petition bearing over

> 7,000 signatures endorsing the new plant. As one local businessman commented, "I would say 80 percent of the people in Beaufort County are in favor of BASF. Those who aren't rich." (William D. McDonald, "Youth Corps Looking for Jobs," *The State*, February 23, 1970.)

The manager of BASF's U.S. operations was clearly confronted by an economic and moral dilemma. He knew that preventing massive pollution was virtually impossible and, in any case, outrageously expensive. The eagerness of South Carolina officials for new industry suggested that pollution standards might be "relaxed" for BASF. If it decided to go ahead and build, was the company to push for the minimum pollution control it could get away with under the law? Such a policy might maximize corporate profits and the financial interests of the shareholders, while at the same time it would lower the aesthetic quality of the environment. It might make jobs available to Beaufort County while ignoring the resort industry and the enjoyment of vacationers. Moreover, the long-term effects of dumping chemicals was hard to predict, but past experience did not give the manager a feeling of optimism. Pollution seemed to be not only a business issue, but a *moral* one. But how should the manager sort out, and eventually decide upon, such a moral issue?

To solve his moral problem, BASF's manager might try a variety of strategies. He might, for example, begin by assuming that he has three basic options: (1) Build with minimal pollution control; (2) build with maximal pollution control; or (3) do not build.

Then, he might reason

> The consequences of option 1 will be significant but tolerable water pollution, hostility from the Hilton Head Developers, high short-term corporate profits, and satisfied shareholders.
>
> The consequences of option 2 will be unnoticeable pollution, no complaints from the Hilton Head Developers, high pollution-control costs, low profits and unsatisfied stockholders.
>
> The consequences of 3 will be approval from the Hilton Head Developers, low short-term profits (while a search for a new location is underway), strong disapproval from the local townspeople.
>
> My job from a *moral* perspective is to weigh these consequences and consider which of the alternatives constitutes a maximization of good. Who will benefit from each decision? How many people will be adversely affected and in what ways?

Or the manager might reason

> Both BASF Corporation and I are confronted with a variety of *duties, rights,* and *obligations*. First there is the company's obligation to its stockholders, and my duty as manager is to protect the economic interests and rights of our stockholders. Next there are the rights of those Beaufort residents and visitors