



# **Moral Issues In Business**

7th Edition

William H. Shaw  
Vincent Barry

# **Moral Issues in Business**

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**Seventh Edition**

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San Jose State University

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## Preface

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**A**s *Moral Issues in Business* enters its seventh edition, business ethics is now a well-established academic subject. Most colleges and universities offer courses in it, and scholarly interest in the field continues to grow. This is all to the good: It is difficult to imagine an area of study that has greater importance to society or greater relevance to students.

Yet some people still scoff at the idea of business ethics, jesting that the very concept is an oxymoron. To be sure, recent years have seen the newspapers filled with lurid stories of corporate misconduct and felonious behavior by individual businesspeople. And many suspect that what the newspapers report represents only the tip of the proverbial iceberg. Yet these reports should push the reflective person, not to make fun of business ethics, but rather to think more deeply about the nature and purpose of business in our society and about the ethical choices individuals must inevitably make in their business and professional lives.

Business ethics has an interdisciplinary character. Questions of economic policy and business practice intertwine with issues in politics, sociology, and organizational theory. Although business ethics remains anchored in philosophy, even here abstract

questions in normative ethics and political philosophy mingle with analysis of practical problems and concrete moral dilemmas. Furthermore, business ethics is not just an academic study but also an invitation to reflect on our own values and on our own responses to the difficult moral choices that the world of business can pose. Accordingly, this book sticks to the four main objectives of previous editions: to expose students to the important moral issues that arise in various business contexts; to provide students with an understanding of the moral, social, and economic environments within which those problems occur; to introduce students to the ethical concepts that are relevant for resolving those moral problems; and to assist students in developing the necessary reasoning and analytical skills for doing so. Although the book's primary emphasis is on business, its scope extends to related moral issues in other organizational and professional contexts.

*Moral Issues in Business* has four parts. Part I, "Moral Philosophy and Business," discusses the nature of morality and presents the main theories of normative ethics and the leading approaches to questions of economic justice. Part II, "American Business and Its Basis," examines the institutional

foundations of business, focusing on capitalism as an economic system and the nature and role of corporations in our society. Part III, "The Organization and the People in It," identifies a variety of ethical issues and moral challenges that arise out of the interplay of employers and employees within an organization, including the problem of discrimination. Part IV, "Business and Society," concerns moral problems involving business, consumers, and the natural environment.

### **Changes in This Edition**

Although instructors who have used the previous edition will find the organization and content of the book familiar, we have revised *Moral Issues in Business* with thoroughness. We have updated material throughout and tried to enhance the clarity of our discussions and the accuracy of our treatment of both philosophical and empirical issues. We remain committed to providing students with a textbook that they will find clear, understandable, and engaging. This edition, like its predecessor, gives expanded treatment to the many ethical issues facing real people in the world of work: civil liberties on the job, personnel policies and procedures, union issues, drug testing, job satisfaction, downsizing, AIDS in the workplace, conflicts of interest, worker participation, day care and maternity leave, the "mommy track," and employee health and safety, among other topics.

The case studies now number forty-five, nine of them brand-new. We have revised and updated many of the others. The case studies vary in kind and in length, but they are designed to enable instructors and students to pursue further some of the issues discussed in the text and to analyze them in more specific contexts. The case studies should provide a lively springboard for classroom discussion and the application of ethical concepts.

Five of the thirty-two supplementary readings are new, and we have improved the editing of many of the others. These essays address not only theoretical topics, but also applied issues such as drug testing, sexual harassment, animal rights, plant relocations, advertising, discrimination, multinational corporations, the ethics of sales, and much more. These

readings are intended to augment the text by permitting selected topics to be studied in more detail and by exposing students to alternative perspectives and analyses. In selecting and editing the readings, we have sought to provide philosophically interesting essays that will engage students and lend themselves well to class discussion.

### **Ways of Using the Book**

A course in business ethics can be taught in a variety of ways. Instructors have different approaches to the subject, different intellectual and pedagogical goals, and different classroom styles. They emphasize different themes and start at different places. No textbook can be all things to all instructors. In any case, were a textbook to succeed in this goal, it would lose its individual voice. Nevertheless, because of the range of topics covered, because of the three types of material in the book—text, cases, and readings—and because of the amount of material we have provided, teachers have great flexibility in how they use *Moral Issues in Business* and in how they organize their courses.

Naturally, the book can be taught cover to cover just as it is, but in a semester course this will require a brisk pace. Many instructors will wish to linger on certain topics, touch briefly on others, and skip some altogether. Assigning all the cases and extra readings as well as the text of a chapter obviously provides for the greatest depth of coverage, but the text can easily be taught by itself or with only some of the cases or readings. The book readily permits topics to be dealt with briefly by assigning only selections from the case studies, the readings, or the text itself, instead of the chapter as a whole. Depending on the instructor's approach, it is even possible to focus the course on the case studies themselves or the readings, with the text assigned only as background.

The chapters themselves are relatively self-contained, allowing them to be taught in various orders without loss of coherence. Instructors eager to get to the more specific moral issues discussed in later chapters could skip Parts I and II (perhaps assigning only Solomon's "It's Good Business") and begin with the topics that interest them. Other instructors may choose to start with the analysis of

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capitalism in Chapter 4 or with the discussion of corporate responsibility in Chapter 5, then spend the bulk of the term on the chapters devoted to particular moral topics in business, returning later to some of the issues of Part I. Still other teachers may wish to devote much of a semester to the foundational concerns of Parts I and II and deal more briefly and selectively with later matters.

## **Acknowledgments**

We wish to acknowledge our great debt to the many people whose ideas and writings have influenced us over the years. Philosophy is widely recognized to involve a process of ongoing dialogue. This is nowhere more evident than in the writing of textbooks, whose authors can rarely claim that the ideas being synthesized, organized, and presented are theirs alone. Without our colleagues, without our students, and without a larger philosophical community concerned with business and ethics, this book would not have been possible. We would especially like to thank the reviewers of this and the previous edition of *Moral Issues in Business* for their thoughtful criticisms and helpful suggestions: Thomas Adajian, North Carolina State University; Scott Calef, Xavier University of Louisiana; Herbert Cassel, University of Indianapolis; Julia Driver, Brooklyn College; Janice Loutzenhiser, California State University, San Bernardino; Krishna Mallick, Bentley College; Thomas O'Brochta, Loyola University of Chicago; and Robert T. Sweet, Clark State Community College.

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Part One

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**Moral Philosophy  
and Business**

# 1

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## The Nature of Morality

**S**ometimes the rich and mighty fall. Ask Michael R. Milken, former junk-bond chief at Drexel Burnham Lambert. In the late 1980s, Milken was Wall Street's whiz kid, the young star who in a few years almost single-handedly built junk-bond financing into the tool of choice for corporate raiders. In charge of the 150 people employed at Drexel's junk-bond operation and working twelve to thirteen hours a day, seven days a week, Milken turned Drexel from a second-rank firm into a Wall Street powerhouse. In the process he helped transform the world of American business and finance. He also made himself fantastically wealthy. Then federal investigators closed in on Drexel and Milken, and a brilliant career nose-dived and crashed.

The Securities and Exchange Commission (SEC) brought a 184-page civil complaint and criminal charges against Drexel. Among other things, the company attempted to manipulate the market by "parking" stocks with an outside conspirator, Ivan F. Boesky, the famous corporate raider and Wall Street financier. Boesky would hold stocks secretly owned by Drexel and carry out its buy and sell instructions.

He and the company would then divide the profits and destroy the records to keep investigators from finding out about the transactions. Drexel quickly pleaded guilty to six felonies related to market fraud and agreed to pay \$650 million in fines and penalties. This and the collapse of the junk-bond market forced Drexel out of business.

Milken himself was involved in these illegal deals and much, much more. After government prosecutors brought the full force of the federal racketeering law against him for illegal insider trading and various fraudulent activities, a federal grand jury returned a ninety-eight-count indictment. As a result of intense negotiation, Milken pleaded guilty to six felonies—including conspiracy, securities fraud, mail fraud, and filing false tax forms—and agreed to pay a record \$600 million in penalties in return for federal prosecutors dropping the remaining ninety-two charges.

Federal District Judge Kimba M. Wood initially sentenced Milken to ten years in prison for his crimes, but later reduced his time in jail to just two years, releasing him from custody in 1993. However,

the terms of Milken's probation required him to put in a further three years of full-time community service work. And he has also had to pay an additional \$500 million in cash and securities to settle various civil claims arising out of his illegal activities at Drexel. Still, some people thought that Milken got off easy, especially when UCLA took advantage of his release from prison by hiring Milken to teach a course (related to some videos he was marketing) to its business students. Denying that UCLA condoned Milken's misdeeds or was offering him as a role model to its students, the university's defenders argued that Milken's expertise in high finance was more important than his record of criminal conduct.

Such stories of business corruption and wrongdoing in high places have always fascinated the popular press. And since the Wall Street scandals involving Milken and others and the crash of the savings and loan industry—in which fraud contributed to more than 40 percent of thrift failures<sup>1</sup>—the media interest in business ethics has been greater than ever. But one should not be misled by the headlines and news reports. Not all moral issues in business involve corporate executives or the giants of Wall Street, and few cases of business ethics are widely publicized. The vast majority of them involve the mundane, uncelebrated moral challenges that working men and women meet daily.

Milken broke the law, and it's easy to see that what he did was wrong.<sup>2</sup> But many of the moral issues that arise in business are complex and difficult to answer. The topic of business ethics includes not just the question of the moral or immoral motivations of businesspeople, but also a whole range of problems that arise in the context of business. These issues are too numerous to compile, but consider these typical questions:

Is passing a personality or honesty test a justifiable preemployment condition? Are drug tests? What rights do employees have on the job? How should business respond to employees who have AIDS? What, if anything, must it do to improve work conditions?

Should manufacturers reveal all product defects? At what point does acceptable exaggeration be-

come lying about a product or service? When does aggressive marketing become consumer manipulation?

Is a corporation obliged to help combat social problems such as poverty, pollution, and urban decay? Must business fight sexism and racism? How far must it go to ensure equality of opportunity? How should organizations respond to the problem of sexual harassment?

May employees ever use their positions inside an organization to advance their own interests? Is insider trading or the use of privileged information immoral? How much loyalty do workers owe their companies? What say should a business have over the off-the-job activities of its employees?

What obligations does a worker have to outside parties, such as customers, competitors, or society generally? When, if ever, is an employee morally required to blow the whistle?

These questions typify business issues with moral significance. The answers we give are determined largely by our moral standards, principles, and values. What these standards and principles are, where they come from, and how they can be assessed are some of the concerns of this opening chapter. In particular, you will encounter the following topics:

1. The nature, scope, and purpose of business ethics
2. The distinguishing features of morality and how it differs from etiquette, law, and professional codes of conduct
3. The relationship between morality and religion
4. The doctrine of ethical relativism and its difficulties
5. What it means to have moral principles, the nature of conscience, and the relationship between morality and self-interest
6. The place of values and ideals in a person's life
7. The social and psychological factors that sometimes jeopardize an individual's integrity
8. The characteristics of sound moral reasoning

### Ethics

"The word *ethics* comes from the Greek word *ethos*, meaning character or custom," writes philosophy professor Robert C. Solomon.<sup>3</sup> Today we use the word *ethos* to refer to the distinguishing disposition, character, or attitude of a specific people, culture, or group (as in, for example, "the American ethos" or "the business ethos"). According to Solomon, the etymology of *ethics* suggests its basic concerns: (1) individual character, including what it means to be "a good person," and (2) the social rules that govern and limit our conduct, especially the ultimate rules concerning right and wrong, which we call *morality*.

Some philosophers like to distinguish ethics from morality; in their view "morality" refers to human conduct and values and "ethics" refers to the study of those areas. "Ethics" does, of course, denote an academic subject, but in everyday parlance we interchange "ethical" and "moral" to describe people we consider good and actions we consider right. And we interchange "unethical" and "immoral" to describe what we consider bad people and wrong actions. This book follows that common usage.

### Business and Organizational Ethics

The primary focus of this book is ethics as it applies to business. *Business ethics* is the study of what constitutes right and wrong, or good and bad, human conduct in a business context. For example, would it be right for a store manager to break a promise to a customer and sell some hard-to-find merchandise to someone else, whose need for it is greater? What, if anything, should a moral employee do when his or her superiors refuse to look into apparent wrongdoing in a branch office? If you innocently came across secret information about a competitor, would it be permissible for you to use it for your own advantage?

One difficulty in talking about business ethics is that "business" and "businessperson" have various meanings. "Business" may denote a corner hamburger stand or a multinational corporation that does business in several countries. A "businessperson" may be a gardener engaged in a one-person operation or a company president responsible for

thousands of workers and enormous corporate investments. Accordingly, the word *business* will be used here simply to mean any organization whose objective is to provide goods or services for profit. *Businesspeople* are those who participate in planning, organizing, or directing the work of business.

But this book takes a broader view as well. It is concerned with moral issues that arise anywhere that employers and employees come together. Thus, it is as much about organizational ethics as business ethics. An *organization* is a group of people working together to achieve a common purpose. The purpose may be to offer a product or service primarily for profit, as in business. But the purpose may also be health care, as in medical organizations; public safety and order, as in law-enforcement organizations; education, as in academic organizations; and so on. The cases and illustrations presented in this book deal with moral issues and dilemmas in both business and nonbusiness organizational settings.

People occasionally poke fun at the idea of business ethics, declaring that the term is a contradiction or that business has no ethics. Such people take themselves to be worldly and realistic. They think they have a down-to-earth idea of how things really work. In fact, despite its pretense of sophistication, this attitude is embarrassingly naive. People who express it have little grasp of the nature of ethics and only a superficial understanding of the real world of business. After you have read this book, you will perhaps see the truth of this judgment.

### Personal and Business Ethics

Because the study of business and organizational ethics is part of the broader study of ethics, this book discusses basic ethical concepts and general theories of right and wrong. To discover guidelines for moral decision making within an organization, we must first explore guidelines for making moral decisions generally. The intimacy between ethics in general and ethics as applied to business contexts implies that one's personal ethics cannot be neatly divorced from one's organizational ethics. In fact, it is safe to say that those who have studied and thought seriously about ethics in general and about their own values in particular have a more useful ba-



sis for making moral decisions in an organizational setting than those who have not.

Perhaps recognition of the intimacy between personal and organizational ethics was what prompted a number of chief executive officers of top U.S. companies and the deans and alumni of prestigious business schools to suggest in an important study that the ideal graduate program in business administration should include a sound grounding in ethics. In the words of Roger L. Jenkins, dean for graduate business programs at the University of Tennessee and the study's conductor: "Today's marketplace calls for a business executive who is bold enough to build his [or her] reputation on integrity and who has a keen sensitivity to the ethical ramifications of his [or her] decision making."<sup>4</sup>

If people within business and nonbusiness organizations are to have "keen sensitivity to the ethical ramifications" of their decision making, they must have moral standards. Moral standards are the basis of ethical conduct and differ significantly from nonmoral standards.

### **Moral Versus Nonmoral Standards**

What falls outside the sphere of moral concern is termed *nonmoral*. Whether your new sports car will "top out" at 120 or 130 miles per hour is a nonmoral question. Whether you should top it out on Main Street on a Wednesday at high noon (or even at 3 A.M., for that matter) is a moral question. To see why requires an understanding of the difference between moral standards and other kinds of standards.

Wearing shorts to a formal dinner party is boorish behavior. Murdering the King's English with double negatives violates the basic conventions of proper language usage. Photographing the finish of a horse race with low-speed film is poor photographic technique. In each case a standard is violated—fashion, grammatical, technical—but the violation does not pose a serious threat to human well-being.

*Moral standards* are different because they concern behavior that is of serious consequence to human welfare, that can profoundly injure or benefit people.<sup>5</sup> The conventional moral norms against lying, stealing, and murdering deal with actions that can hurt people. And the moral principle that human

beings should be treated with dignity and respect uplifts the human personality. Whether products are healthful or harmful, work conditions safe or dangerous, personnel procedures biased or fair, privacy respected or invaded are also matters that seriously affect human well-being. The standards that govern our conduct in these matters are moral standards.

A second characteristic follows from the first. Moral standards take priority over other standards, including self-interest. Something that morality condemns—for instance, the burglary of your neighbor's home—cannot be justified on the nonmoral grounds that it would be a thrill to do it or that it would pay off handsomely. We take moral standards to be more important than other considerations in guiding our actions.

A third characteristic of moral standards is that their soundness depends on the adequacy of the reasons that support or justify them. For the most part, fashion standards are set by clothing designers, merchandisers, and consumers; grammatical standards by grammarians and students of language; technical standards by practitioners and experts in the field. Legislators make laws, boards of directors make organizational policy, and licensing boards establish standards for professionals. In every case, some authoritative body is the ultimate validating source of the standards and thus can change the standards if it wishes. Moral standards are not made by such bodies, although they are often endorsed or rejected by them. More precisely, the validity of moral standards depends not on authoritative fiat but on the adequacy of the reasons that support or justify them. Precisely what constitutes adequate reasons for moral standards is problematic and, as we will see, underlies disagreement about the legitimacy of specific moral principles.

Although these three features set moral standards apart from others, it is useful to distinguish morality more specifically from three areas with which it is sometimes confused: etiquette, law, and so-called professional codes of ethics.

### **Morality and Etiquette**

*Etiquette* refers to any special code of behavior or courtesy. In our society, for example, it is usually