



# Business Ethics

FOURTH EDITION

*William H. Shaw*

# BUSINESS ETHICS

Fourth Edition

**WILLIAM H. SHAW**

San Jose State University

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## **PREFACE**

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It is difficult to imagine an area of study that has greater importance to society or greater relevance to students than business ethics. As this book enters its fourth edition, business ethics has become a well-established academic subject. Most colleges and universities offer courses in it, and scholarly interest in the field continues to grow.

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 proverbial tip of the iceberg. However, these reports should prompt 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 our own responses to the hard moral choices that the world of business can pose.

### **The Organization of the Book**

The purpose of this text is fourfold: 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 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.

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 the Fourth Edition

Although instructors who have used the previous editions will find the organization and content of the book familiar, *Business Ethics* has been thoroughly revised. I have updated material throughout the book and tried to enhance the clarity of its discussions and the accuracy of its treatment of both philosophical and empirical issues. At all times my goal has been to provide students with a textbook that they will find clear, understandable, and engaging.

Thirty-seven case studies now supplement the main text. Several of these are new; many of the others have been revised and updated. 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 discussions and the application of ethical concepts.

## Ways of Using This Book

A course on business ethics can be taught in a variety of ways. Some instructors prefer to treat the foundational questions of ethical theory thoroughly before moving on to particular moral problems; others reverse this priority. Still other instructors frame their courses around the question of economic justice, the analysis of capitalism, or the debate over corporate social responsibility. Some instructors stress individual moral decision making, others social and economic policy.

*Business Ethics* permits teachers great flexibility in how they organize their courses. A wide range of theoretical and applied issues are discussed; and the individual chapters, the major sections within them, and the case studies are to a surprising extent self-contained. Instructors can thus teach the book in whatever order they choose, and they can easily skip or touch lightly on some topics in order to concentrate on others without loss of coherence.

## Acknowledgments

I wish to acknowledge my great debt to the many people whose ideas and writings have influenced me 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 my colleagues, without my students, and without a larger philosophical community concerned with business and ethics, this book would not have been possible.

I particularly want to acknowledge my debt to Vincent Barry. Readers familiar with our textbook and reader *Moral Issues in Business*\* will realize the extent to which I have drawn on material from that work. *Business Ethics* is, in effect, a revised and updated version of the textbook portion of that collaborative work, and I am very grateful to Vince for permitting me to use our joint work here.

\*William H. Shaw and Vincent Barry, *Moral Issues in Business*, 8th ed. (Belmont, Calif.: Wadsworth, 2001).

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PART

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# **MORAL PHILOSOPHY AND BUSINESS**

# 1

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## **The Nature of Morality**

Sometimes the rich and mighty fall. Ask Michael R. Milken, former junk-bond chief at Drexel Burnham Lambert. Milken was once 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. However, Milken was required to perform three years of community service work and 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. Unfortunately, Milken was back in trouble with the law a few years later, evidently finding it difficult to give up his old ways. In 1998, he was obliged to pay \$47 million to settle a SEC complaint that he had violated a court order permanently barring him from acting as a securities broker.

Such stories of business corruption and wrongdoing in high places have always fascinated the popular press. And in recent years 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>1</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 become lying about a product or service? When does aggressive marketing become consumer manipulation?

What are business's environmental responsibilities? Is a corporation obliged to help combat social problems such as poverty or 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>2</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 use "unethical" and "immoral" interchangeably to designate 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