

AN INTRODUCTION TO
BUSINESS
ETHICS

joseph desjardins

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St. Benedict



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AN INTRODUCTION TO BUSINESS ETHICS

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This book is printed on acid-free paper.

2 3 4 5 6 7 8 9 0 FGR/FGR 0 9 8 7 6 5 4 3

ISBN 0-7674-0700-8

Publisher: *Kenneth King*
Sponsoring editor: *Jon-David Hague*
Marketing manager: *Gregory Brueck*
Media producer: *Lance Gerhart*
Project manager: *Jean R. Starr*
Production supervisor: *Susanne Riedell*
Coordinator of freelance design: *Mary E. Kazak*
Photo research coordinator: *Holly Rudelitsch*
Cover design: *Andrew Curtis*
Cover Image: *Getty Images*
Typeface: *10/12 Palatino*
Compositor: *Thompson Type*
Printer: *Quebecor World Fairfield Inc.*

Library of Congress Cataloging-in-Publication Data

DesJardins, Joseph R.

An introduction to business ethics / Joseph DesJardins.

p. cm.

Includes index.

ISBN 0-7674-0700-8 (softcover : alk. paper)

1. Business ethics. I. Title.

HF5387 .D392 2003

174'.4--dc21

2002071805

www.mhhe.com

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Preface

I began drafting early chapters of this book late in the summer of 1997 soon after returning from the annual meeting of the Society for Business Ethics, the main professional organization for business ethicists in North America. The keynote speaker at that conference was Aaron Feuerstein, president and CEO of Malden Mills. As I write the final sections late in the winter of 2002, the collapse of Enron Corporation continues to dominate the national press. Malden Mills, used as a case study to open chapter 1, and Enron, used as the opening case for chapter 6, represent the extremes in business ethics. Malden Mills provides a picture of a business worth emulating: produce a high quality product that consumers value, treat employees with decency and fairness, give back to the community that supports your business. Enron, as we all know too well by now, offers only a model for greed, arrogance, and corruption. These two corporations provide the temporal and conceptual bookends for this text. The study of ethics is the study of choices: What we should value? How we should act? Who we should become? Where should we work? Malden Mills or Enron?

My goal in writing this book is to provide a clear, concise, and reasonably comprehensive introductory survey of the ethical choices available to us in business. Business ethics is a truly multidisciplinary field. Students must address information from a variety of disciplines including philosophy, management, economics, law, marketing, and public policy. Instructors come from equally diverse backgrounds, with training in philosophy, theology, management, law, and a variety of business disciplines. Business ethics is also distinctive in that it is taught at every level of higher education, from Ph.D. programs to community colleges. It is not unusual even to find business ethics topics taught within a high school curriculum. Business ethics courses are commonly required in business schools and MBA programs and are a popular elective among liberal arts students. While often taught as a stand-alone, semester-long course, business ethics is also often taught as a separate unit within a variety of business courses, applied and professional ethics courses, philosophy courses, and humanities seminars. Business ethics is also taught in various manners: exclusively with elaborate case studies, with primary source books, with anthologies, with single author textbooks, with novels and literature, and with a combination of texts, readings, and cases.

Given this diversity of instructors, students, topics, and pedagogy, there is no single way—let alone single *right* way—to teach business ethics. It is not

surprising, therefore, that you can find a wide variety of textbooks, casebooks, and anthologies available. So, why yet another book?

It seems to me that, even among this variety, we are missing a textbook that pays particular attention to the range of teaching challenges that arise out of this diversity of approaches to business ethics. In my own teaching experience, I have discovered that while the specifics change from semester to semester, *the general philosophical and conceptual structure* of the course remains the same. This book's conceptual structure can be used to provide a context for a wide variety of pedagogical approaches that stress depth of analysis: case studies, anthologies, and primary sources. This book's own breadth and depth also allows it to be used as a stand-alone text for business ethics units or components within other courses.

TEACHING CHALLENGES

As the idea for this text developed, I kept returning to one fundamental question: "What do teachers of business ethics want for our students?" This question proved a helpful way to identify what I see as the more specific pedagogical challenges facing business ethics.

Before we can answer the general question, we need to identify who our students are. This proves to be the first major challenge facing teachers. The diversity of business ethics classes means that the student population for this course is so diverse that no single answer to this question seems possible. What I want for my first-year college student in a liberal arts humanities course is different from what I want for my student in an executive MBA program. Even within a single business ethics course, students are apt to have very different backgrounds, interests, expectations, career plans. While one student may be on track to become a senior-level manager with significant decision-making responsibilities, others will never work in a for-profit business and will interact with commercial businesses simply as a consumer and citizen. Further, while many students who enroll in business ethics are highly motivated to take the class, many others are there simply because it is a required course in a business curriculum.

A business ethics text should be sensitive to the distinct perspectives of a diverse student audience. The ideal teaching book would do several things in this regard. It must examine issues that are relevant to a very diverse student audience, and it must be accessible to students from various backgrounds and at various points in their academic career. This is the first major goal of this text.

It seems to me that too many texts assume that their student audience is comprised exclusively of future CEOs and senior managers. From this perspective, business ethics is taught almost as a course in strategic management: how should major strategic decisions be made? "What would you do if you were confronted with a dilemma between maximizing profits and acting in a way that is ethically responsible?" I believe that this approach (what I sometimes call in class the "great man" model) is misguided on several counts. First, it

does a disservice to the majority of our students, most of whom (and this has been especially true for our women students, thus the gender-specific name “great man”) will never have the opportunity to make major strategic decisions. While this approach might be appropriate at the Harvard Business School, the fact of the matter is that very few undergraduates are CEOs-in-waiting.

Second, the “great man” model tends to take large corporate bureaucracies as their model workplace. In fact, a majority of people are employed in small businesses. A business ethics text needs to address the types of ethical challenges that students can expect to face in a variety of workplace settings.

But this is not to say that strategic decisions can be ignored either. Every student, in their role as employee, consumer, and citizen has a stake in these major corporate decisions. Simply because they are not making the decisions themselves does not mean that they should not be well-versed in the relevant issues surrounding them. Likewise, strategic decision-makers themselves ought, prudentially and ethically, to pay attention to the perspectives of employees, consumers, and citizens. So, whether the classroom contains students of similar or diverse interests and backgrounds, a good teaching text will help instructors address issues from a variety of perspectives. For example, whether students are CEOs-in-waiting or simply taking the course as an interested undergraduate, the issue of workplace safety is significant and can be approached from a variety of perspectives. Managers must weigh the responsibility for providing a safe workplace against responsibilities to shareholders and customers. Employees’ demand for safe working conditions can involve trade-offs with other workplace benefits. Citizens should consider the type of society they wish to create as well as the indirect costs of worker’s compensation and medical care. Examining such issues from only one perspective will not exhaust all of the ethical questions that deserve to be addressed.

PEDAGOGICAL FEATURES OF THIS TEXT

Several features of this text were designed to meet these challenges. The book begins with a short chapter that addresses the question: “Why study business ethics?” Using several well-known cases, this chapter provides a rationale and motivation for even the most skeptical students to study business ethics. Every chapter in the book opens with a discussion case that raises some of the key issues to be examined within the chapter. These cases are developed from real-world situations, are followed by discussion questions aimed to get students personally involved in thinking about these issues, and are integrated within the chapter discussion that follows. Each chapter ends with review questions, most of which can be used to shape student learning goals for the chapter. Further, a glossary of key terms, from philosophical ethics to economics, law, and management, is provided to help students from diverse backgrounds master the vocabulary of unfamiliar disciplines.

Throughout the text, students will be asked to shift perspectives when they examine specific issues. Many of the discussion questions following cases and review questions at the end of each chapter explicitly ask students to shift perspectives in evaluating ethical issues. Taking the point of view of business owner, manager, employee, investor, consumer, competitor, and democratic citizen should provide a voice for all student perspectives. It also should prevent students from becoming complacent about the managerial prerogative and should do justice to the complexity of ethical controversies. This text will also encourage students to shift perspectives as part of their analysis and reading.

Second, while this text is primarily an introduction to *philosophical* ethics, it will integrate the perspective offered by philosophy with issues of management, law, economics, and public policy. When one is fully engaged with issues of business ethics, the boundaries between these disciplines are artificial. The philosophical structure and context presented in the initial chapters provides an introductory integration of these fields.

Third, in addition to the opening discussion case in each chapter, shorter cases and examples will be used throughout the text to highlight relevant philosophical and ethical points. While cases must be detailed enough to do justice to the facts and complexity of the issues, very detailed cases, such as those developed at the Harvard Business School, are unnecessary and can even be distracting for undergraduate students. My goal will be to use short cases more as examples to highlight philosophical and pedagogical elements of the text. Thus, every chapter will include numerous examples integrated within the text.

Teachers of ethics face several other pedagogical challenges. First, there is the daunting gap between ethical judgment and ethical behavior. From at least the time of Plato and Aristotle, western philosophy has acknowledged a real discontinuity between judging some act as right and following through and doing it. While many observers (for example, a former dean that I worked with) expect an ethics class to teach ethical behavior, most ethicists have the more modest goal of encouraging informed and careful ethical reasoning. It is not at all clear, for example, that an ethics course would have made any difference to the executives at Enron and Arthur Andersen.

A more judicious goal for a business ethics book is to focus on the cognitive and intellectual (as opposed to behavioral) side of ethics. But even here there is a major dilemma confronting ethics teachers. On the one hand, we do not want to teach ethics in a way that indoctrinates students. Few of us think that it is our role to *tell* students the right answers and *proclaim* what they ought to think and how they ought to live. Our role should not be to convey information to a passive audience, but to treat students as active learners and engage them in an active process of thinking and questioning. Taking Socrates as our model, philosophical ethics rejects the view that blind obedience to authority or the simple acceptance of customary norms is an adequate ethical perspective. Teaching ethics must, on this view, involve students *thinking for themselves*. Discussion questions following each opening Discussion Case, as well as

chapter-concluding review questions, will help students begin to analyze these ethical issues for themselves.

The problem, of course, is that when people think for themselves they don't always agree, and they certainly don't always act in a way that others might judge as ethical. The other side of this dilemma is the specter of relativism and emotivism. If one is not in the ethics classroom to tell students the right answers, many will conclude that there are no right answers. If there are few teachers who use the classroom to preach ethical dogma, there are probably fewer still who believe that there are no right answers and that anything goes.

Thus another major teaching challenge is to avoid the dilemma of preaching the truth to passive listeners on one hand, while avoiding the relativistic conclusion that all opinions are equal on the other. A textbook can navigate this difficulty by emphasizing the *process* of ethical reasoning. One must begin with an accurate and fair account of the facts, one must listen to all sides with an open mind, and one must pursue the logical analysis of each issue fully and with intellectual rigor. Teaching ethics essentially involves this process of ethical analysis. Without it, one risks turning ethics into dogmatism; with it, one has gone as far as possible to deflate relativism. Each chapter presents the relevant ethical arguments in a way that is fair and accurate, yet is also pursued far enough to move students beyond superficial conclusions.

The final major feature of this text therefore is the attempt within each chapter to present a fair and reasonably developed dialectical analysis of each issue. As each issue is introduced, I strive to present the relevant sides, typically in a back-and-forth, dialogical format. Both sides of the debate need to be presented fairly, but students shouldn't be left there. This text will follow the arguments to a point where students can see that rational progress can be made and where, with luck, they will be able to develop their own more sophisticated conclusions. I don't hesitate to offer conclusions that I believe are sound, but never without giving opposing views a fair hearing and never without indicating where future challenges lie. I will also acknowledge those cases where I think ethical analysis leads to more ambiguous and inconclusive results.

In summary, this text provides a clear yet comprehensive introductory survey of business ethics that is relevant and accessible to a diverse student audience. It will integrate the analysis of factually-based cases with a survey of the major debates and controversies about the proper role of business in society. Its target market is as a supplemental text for courses that use case studies and anthologies, or as a single introductory text for business ethics units within other courses.

Major Content Highlights

While the goal is to provide a straightforward and accurate survey of the field, there are several distinctive features of this text. There is an entire single chapter devoted to the questions of the meaning and value of work itself. Only recently have these questions begun to attract philosophical attention among business

tion and thanks. My own work in business ethics has, for over twenty years, benefited from the friendships of John McCall and Ron Duska. They will no doubt find much in this book that sounds familiar. Substantial portions of chapters 5 through 8 owe much to their thinking. Twenty years of friendship and collaboration tends to blur the lines of authorship, but it is fair to say that I have learned much more from John and Ron than they from me.

A number of people have read portions of this text and I have benefited greatly from their advice. An early version of chapter 9 appeared in Norman Bowie's *Blackwell's Guide to Business Ethics*, and I benefited from Norm's advice and suggestions in writing that chapter. I've also learned a good deal about economics and sustainable development from my colleague Ernie Diedrich. Chapter 9 could not have been written without his help. The two chapters on marketing ethics were helped by the thoughtful comments of Patrick Murphy, whose own work was the initial prod to broaden my understanding of marketing ethics beyond the customary and narrow topic of advertising.

This book has also benefited at various stages by the suggestions of many scholars who were gracious enough to review the manuscript for McGraw-Hill. The following people offered helpful suggestions in the earliest stages of the book: Dr. Edwin A. Coolbaugh—Johnson & Wales University; Jill Dieterlie—Eastern Michigan University; Glenn Moots—Northwood University; Jane Ham-mang-Buhl—Marygrove College; Ilona Motsiff—Trinity College; Bonnie Fremgen—University of Notre Dame; Sheila Bradford—Tulsa Community College. Later versions benefited from the reviews of: Donald Skubik—California Baptist University; Sandra Powell—Weber State University; Gerald Williams—Seton Hall University; Leslie Connell—University of Central Florida; Brad K. Wilburn—Santa Clara University; Carlo Filice—SUNY, Genesco. Sandra Powell and Gerald Williams were kind enough to review the material again just prior to publication. I owe a significant debt of gratitude to them all.

Finally, it has been a real pleasure to work with Jon-David Hague at McGraw-Hill. Without Jon-David's support and encouragement, this book would still exist only as a project "in progress." This book was begun with the advice and encouragement of Ken King. Ken has had an editorial role in every book I have published and I am happy, once again, to acknowledge my debt to him. I also am pleased to thank and acknowledge the good work of the entire production staff at McGraw-Hill.

Joseph DesJardins

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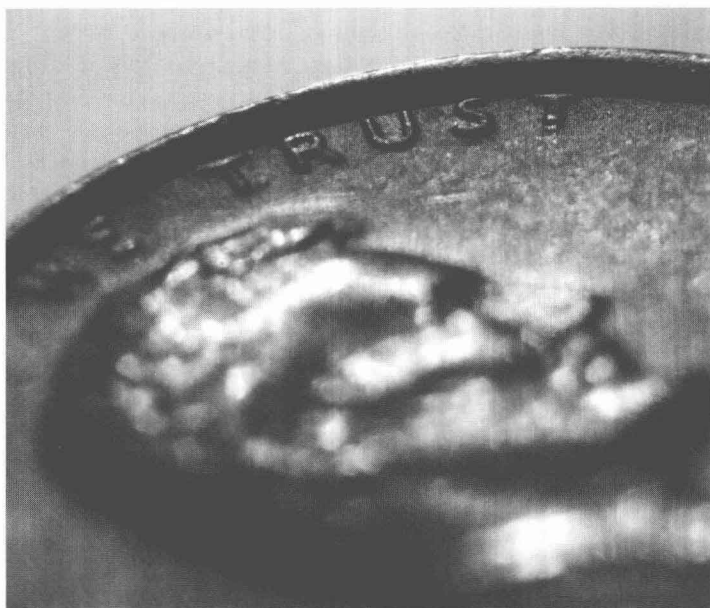
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1 CHAPTER

Why Study Ethics?



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DISCUSSION CASE: Malden Mills

During the early evening hours of December 11, 1995, a fire broke out in a textile mill in Lawrence, Massachusetts. By morning, the fire had destroyed most of Malden Mills, the manufacturer of Polartec fabric. The fire seemed a disaster to the company, its employees, its customers, and the surrounding communities.

Malden Mills is a family-owned business, founded in 1906 and run by the founder's grandson Aaron Feuerstein. Polartec is a high-quality fabric well-known for the outdoor apparel featured by such popular companies as L.L. Bean, Land's End, REI, J. Crew, and Eddie Bauer. As the major supplier of Polartec, the company had sales of \$400 million in the year leading up to the fire. The disaster promised many headaches for Malden Mills and for the numerous businesses that depend on its products.

But the fire also was a disaster for an entire community. The towns surrounding the Malden Mills plant have long been home to textile manufacturing. The textile industry was born in the nineteenth century and thrived for one hundred years along the rivers in these New England towns. The textile industry effectively died during the middle decades of the twentieth century when outdated factories and increasing labor costs led many companies to abandon the area and relocate, first to the nonunionized South, and later to foreign countries such as Mexico and Taiwan. As happened in many northern manufacturing towns, the loss of major industries, along with their jobs and tax base, began a long period of economic decline from which many have never recovered. Malden Mills was the last major textile manufacturer in town, and with 2,400 employees it supplied the economic lifeblood for the surrounding communities. Considering both its payroll and taxes, Malden Mills contributed approximately \$100 million a year into the local economy. The fire was a disaster for many people and many businesses beyond those directly involved with Malden Mills.

As CEO and president, Aaron Feuerstein faced some major decisions. He could have used the fire as an opportunity to follow his local competitors and relocate to a more economically attractive area. He certainly could have found a location with lower taxes and cheaper labor and thus have maximized his earning potential. He could have simply taken the insurance money and decided not to reopen at all. Instead, as the fire was still smoldering, Feuerstein pledged to rebuild his plant at the same location and keep the jobs in the local community. But even more surprisingly, he promised to continue paying his employees and extend their medical coverage until they could be brought back to work. For this, Feuerstein became famous. Featured on television and in such magazines as *Fortune*, *Newsweek*, and *Time*, Mr. Feuerstein was honored by President Clinton and invited to attend the State of the Union address as the president's guest. He was praised by many as a model of ethical business behavior.

It is worthwhile to think about why Feuerstein so captured the public's imagination. No doubt, part of the reason was because his actions seemed so heroic. His decision seemed to go above and beyond the call of duty. His generosity also came at his own expense. Feuerstein seemed willing to sacrifice great personal benefits and self-interest for the sake of others.

But generosity alone doesn't explain the national and international attention paid to Malden Mills. Feuerstein's decision went against the common standard of business behavior and the common understanding of business's social responsibility. We don't usually expect business owners to sacrifice profits willingly for the well-being of their employees and their community. This seems contrary to how most businesses are run and seems contrary to how many people think that businesses should be run. In this way, Feuerstein appeared to be a very unusual business owner.

Further, in the opinion of some critics, Feuerstein's actions were not only unusual, they were unreasonable. From this perspective, business owners and managers *should not* sacrifice profits for the sake of employees and the community. A very common view of business' social responsibility holds that busi-

nesses serve the public interest by maximizing profits. This belief, which we shall identify as the *free market* view of business and examine in detail in later chapters, argues that business fulfills its social responsibilities when it most efficiently produces goods and services and gets them to those people who most highly value them. Profits result from successfully accomplishing this goal; thus, the pursuit of profit becomes the major social responsibility of business. If he willingly sacrificed profits out of sympathy for his employees and community, Feuerstein failed in his duty as a business owner and manager.

DISCUSSION QUESTIONS

1. How would you describe Aaron Feuerstein? What kind of man is he? How would you describe his actions after the fire? Can you describe the man and his actions without using ethical or evaluative words?
2. Were Feuerstein's actions charitable, or was this something he had a duty or obligation to do? What is the difference between acts of charity and obligatory acts?
3. How, if at all, would this case be different if Malden Mills were not a privately owned business?
4. What, if any, responsibility does any business have to the community in which it operates? Imagine yourself to be a citizen of Lawrence, Massachusetts. Do you think Malden Mills has any responsibilities to you?
5. Imagine yourself to be one of the retailers who sell Polartec fabrics. What responsibilities, if any, does Feuerstein have to you? What responsibilities, if any, do you have to Malden Mills?
6. Why do you think Feuerstein became so famous after his decisions?

1.1 INTRODUCTION: WHY STUDY ETHICS?

How is **ethics** at all relevant to business? A case such as Malden Mills shows that business executives are capable of doing very good, even heroic, things. Yet Aaron Feuerstein didn't need an ethics course to teach him how to treat his employees. Why should business students be expected to study ethics if people are perfectly capable of acting ethically without a course in business ethics?

Consider a contrasting case. On December 2, 2001, Enron Corporation, once listed as the seventh largest corporation among the Fortune 500, declared bankruptcy. (See the discussion case that opens Chapter 6 for more detail.) Enron's collapse was largely due to the public disclosure of significant debts that had been concealed by complicated accounting practices. Not only were Enron's top executives deeply involved in this scheme, they personally made tens of millions of dollars from it. This massive ethical fraud was perpetrated with the support of Arthur Andersen, one of the top five international accounting firms. Andersen was also involved in an apparent conflict of interest by serving as