

# Business Ethics



AVID STEWART

# BUSINESS ETHICS

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## BUSINESS ETHICS

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# Preface

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I had been teaching business ethics for several years when a student came up to me after class and asked, “Why don’t we ever talk about cases of ethical business behavior?” The question surprised me. Not only did I realize that the text I was using featured only bad examples of corporate conduct, I had to admit to myself that I could not ever remember bringing into the class discussion a case of ethical business behavior. I can’t recall exactly what I said to the student—it was something to the effect that we can learn best from mistakes, that the literature was dominated by examples of ignoble business behavior, and, besides, I could find some good examples of ethical business behavior if I wanted to.

The latter task proved more difficult than I had imagined. Most of the business texts contained the usual litany of corporate misconduct; few even mentioned companies committed to socially responsible behavior that also had solid bottom lines. My best source for examples of ethical corporate behavior came from books on management, especially those by such business gurus as Tom Peters and Lester Therow. These discussions did not focus primarily on the philosophical underpinning for ethical behavior but rather on the long-term business success accruing to companies with a strong corporate culture that valued the product they made, treated their employees with respect, and dealt with their customers in an ethically enlightened way. These are some of the reasons for my writing this book.

I agree with Kant that one cannot build an ethical view from examples alone. As Plato pointed out centuries ago, one cannot recognize a definition (or an example) as an instance of the quality being sought unless one first has an understanding of that quality. But as Aristotle also knew—and here is where the recurrence of an emphasis on virtue ethics is important—moral exemplars are important in the process of moral development. Of course, in any discussion of business ethics, philosophy is vital. What does it mean to treat employees with respect? How can we understand the

development of a corporate culture with ethical foundations? What are the limits of cost-benefits analysis, and when do individual rights take precedence? Alienation, abstraction, bad faith, justice and fairness—all are philosophical concepts that influence how we perceive business behavior.

For the above reasons, chapters one through four are philosophical in nature. However, the selections from philosophical texts included here are brief, not only because of space restrictions but also because each user of this book must decide which philosophers provide the most useful pedagogical platform. I usually supplement a business ethics text with either Mill's *Utilitarianism* or Kant's *Foundations*, both of which are available in inexpensive paperback editions and give students good exposure to sustained philosophical discussion.

This book is not filled only with examples of ethical corporate conduct because we can sometimes learn from the mistakes of others. The primary emphasis, however, is on good examples of business behavior that benefit the companies that observe good ethical practices even in poor economic times. Woven throughout the book are brief cases ("A Case in Point . . ."), moreover, for those who desire longer cases, each chapter ends with a case study of greater complexity. There is a reason for this approach: if we only provide students with a discussion of unethical business practices, we reinforce the fallacious notion, that business ethics is an oxymoron and that good business behavior is the exception rather than the rule.

There are many persons to be thanked for their assistance with this project: my colleagues in the philosophy department for their help and support; my students whose research and interests generated many of the examples included here; my colleagues at Ohio University such as Stephen Fuller, Frances Fuller, and Bill Day, former dean of the College of Business Administration, and Jim Bruning, the provost to whom I reported primarily when writing this book for allowing me the time to do it. I would also like to thank McGraw-Hill's philosophy editors: Cynthia Ward, who was the book's acquiring editor; Judy Cornwell, who also worked on the project; and Eleanor Castellano, who saw the project to completion. I also want to thank my wife Audrey who not only gave encouragement in many ways but also brought her librarianship skills to bear on much of the necessary research for the project's success. Thanks also to David Bruce for his careful proofreading and indexing skills.

Finally, thanks also to those business leaders who contributed statements on business ethics to this text. However, these statements should not necessarily be construed as endorsements of the views expressed in this book.

It is also important that I acknowledge the help of the many reviewers who provided valuable insights during various stages of the book's preparation. They include Richard Bond, Ramapo College of New Jersey; Jeanne

Calderon, NYU Stern School of Business; David Flagel, University of New Brunswick; Paul Gallagher, Assumption College; Hal McMullen, Lord Fairfax Community College; Marshall Osman, University of Laverne; Dinah Payne, University of New Orleans; James Smith, East Carolina University; John Stevenson, Columbia College; and Richard Toenjes, East Carolina University.

*David Stewart*

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## About the Author

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DAVID STEWART has taught philosophy at Ohio University since 1970. He received his Ph.D. from Rice University (Houston, Texas) and is the author or editor of nine books. Other works in ethics are *Exploring Ethics* (co-author; Macmillan, 1986), and *Medical Ethics: A Reader* (co-author; Prentice Hall, 1992). At Ohio University he received the University Professor award for teaching and is a Fellow of the Charles J. Ping Institute for the Teaching of the Humanities. Among his other textbooks are an introductory text entitled *Fundamentals of Philosophy* now entering its fourth edition (co-author; Prentice Hall) and *Exploring the Philosophy of Religion* (Prentice Hall), now in its third edition.

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PART **ONE**

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**ETHICS AND BUSINESS**

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# Why Business Needs Ethics

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## CHAPTER OUTLINE

### ETHICS AND CHOICE

### WHY ETHICS IS IMPORTANT

- From the State of Nature to Civil Society
- The Limits of Self-Interest

### THE ROLE OF THEORY IN ETHICS

- Casuistry and Its Problems
- The Advantages of Ethical Theory

### THE IMPORTANCE OF ETHICS FOR BUSINESS

### CHALLENGES TO BUSINESS ETHICS

- Challenges from the Right
- Challenges from the Left

### SOME PHILOSOPHICAL DISTINCTIONS

- Truth and Validity
- Dilemmas
- Dialectical Reasoning

### HOW TO USE THE CASE STUDIES



**Ralph Schey**

Chairman of the Board  
Scott Fetzer Company

*“As nations race toward a global marketplace, the need for commonly accepted ethical standards has taken on new dimensions of even greater importance. Economic development—and the political forces trying to accelerate it—requires that ethical standards substitute for the use of force. Since trade, technology, and finance are the primary tools of business, there is a crushing need to make business ethics an integral part of business training.”*

Before considering the need for ethics in business, let's look at what you can expect from an ethics course. Whenever you sign up for a course, you probably have a pretty good idea of what to expect: An algebra course will teach you algebra, a history course will teach you history, a management course will teach you principles of management. But will an ethics course, a *business* ethics course, teach you to be ethical?

There are some skills that one can learn by reading a book or by taking lessons. Others can only be acquired through a developmental phase during which a person gains the right kinds of habits. The first kind of proficiency is what the ancient Greek philosopher Aristotle calls *intellectual* virtues and includes such things as learning how to build a house or play a musical instrument. The second kind of proficiency, that which requires an extensive developmental phase, is what Aristotle calls the *moral* virtues; learning to be brave in the face of danger or learning how to control one's temper are examples. Aristotle's point is that you cannot learn to be moral except by acquiring a moral disposition and developing moral habits. Developing a moral disposition is not something one does overnight or by reading a book or taking a class. In short, the ethical orientation that you bring to this book is what you have developed over your lifetime, and reading a book on ethics will not quickly change it. However, studying ethics can be part of your moral development, and a course in business ethics can assist you in thinking about how to be moral in the workplace and to analyze cases in business ethics when neither your reputation nor your job is at stake.

## **ETHICS AND CHOICE**

People encounter ethical problems when they are genuinely confused about which moral principle to follow: Should I lie to save a life? Does the mother's right to control her own body take precedence over the rights of the unborn fetus? Is capital punishment an act of murder? Business examples are numerous: Which is better, retrench the work force so that the company can recover and perhaps rehire these people later, or keep full employment with possible dire consequences for the company, including bankruptcy? Should a business allow itself to be the object of a hostile takeover, which could result in the loss of many jobs of those currently employed? Or should it resist the takeover by paying "greenmail" (buying the stock of a corporate raider at higher

than market price so the raider will go away)? Or should the company load itself up with debt to decrease its attractiveness to a raider, even though this may reduce the company's profits? How do we assess the raider's promises to make the business more efficient by stripping away waste and strengthening the company's competitiveness, thereby increasing the real value of the company to the stockholders? How would you answer these questions if you were an employee of the company? But what if you were a manager? A stockholder? A member of the community where the business is located? If we cannot clearly see all the ethical ramifications of our actions, we are often unable to isolate all the morally relevant aspects of the situation and choices become difficult.

There are many situations in business where individuals are tempted to do something that violates their ethical standards. So many issues, whether in business or private life, concern the perpetual problems: lying, cheating, stealing. The unethical conduct of some businesspeople, chronicled in the daily newspapers, concerns not uncertainty over ethical choices but fundamental errors in human conduct. As we will discuss in Chapter 9, a continuing puzzle is why otherwise moral persons act immorally in business matters.

Whether you enter the world of business or not, life will present you with ethical dilemmas, and this book will help you think through some of them before they are encountered in a real-life situation where the consequences will be substantial and sometimes irreversible. In this book we will look at the writings of moral philosophers, examine actual cases of both ethical and unethical behavior in the business world, and set up hypothetical cases and become involved in actual decision making. To make effective decisions, you need to be able to identify and articulate the ethical issues at stake and reason your way through the various alternatives presented. In some instances we will be able to identify clearly the best course of action—that is, the one that we as rational individuals are prepared to defend with argument and analysis. In other cases we will not be so successful, for real-world choices are often ambiguous and not easily decided.

## **WHY ETHICS IS IMPORTANT**

Before turning to the question of why business needs ethics, let's look at the more sweeping question of why a framework of ethics is important for society in general.

Imagine a situation where there is no moral structure for one's actions, no legal system, no power greater than the individual's to adjudicate conflict, and where all people are free to pursue their own interests. This is the state of nature that the seventeenth-century English philosopher Thomas Hobbes describes with great clarity. Although the prospect of pursuing our own self-interest, unhampered by bureaucrats, environmental protection laws, taxation policies, restraint of trade legislation, and other limitations on our conduct, might at first seem attractive, Hobbes shows why it is not. In such a state everyone would be at war with everyone else, and all would be constantly at risk of losing property and life. The standards of behavior of civil society would be absent, and violence would be the order of the day. The words *justice* and *injustice* would have no meaning. Hobbes calls this

#### HOBBS ON THE STATE OF NATURE

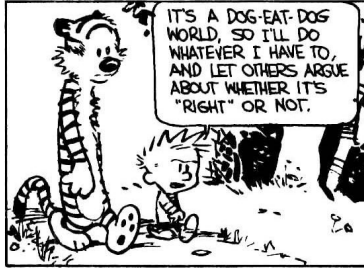
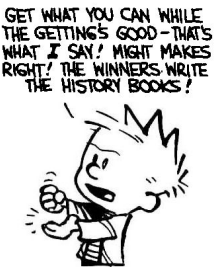
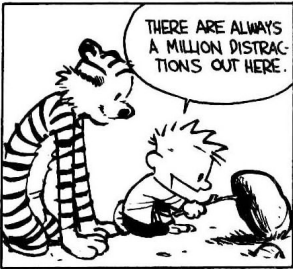
Nature hath made men so equal, in the faculties of the body and mind; as that, though there be found one man sometimes manifestly stronger in body or of quicker mind than another, yet when all is reckoned together, the difference between man and man is not so considerable, as that one man can thereupon claim to himself any benefit, to which another may not pretend as well as he. For as to the strength of body, the weakest has strength enough to kill the strongest, either by secret machination, or by confederacy with others that are in the same danger with himself. . . .

Whereby it is manifest that during the time men live without a common power to keep them all in awe, they are in that condition which is called war; and such a war as is of every man against every man. . . . In such a condition there is no place for industry, because the fruit thereof is uncertain: and consequently no culture of the earth; no navigation, nor use of the commodities that may be imported by sea; no commodious building; no instruments of moving and removing, such things as require much force; no knowledge of the face of the earth; no account of time; no arts; no letters; no society; and which is worst of all, continual fear and danger of violent death; and the life of man, solitary, poor, nasty, brutish, and short. . . .

To this war of every man against every man, this also is consequent: that *nothing can be unjust*. The notions of right and wrong, justice and injustice, have there no place. Where there is no common power, there is no law; where no law, no injustice. Force and fraud are in war the two cardinal virtues. . . . It is consequent also to the same condition, that there be no propriety, no dominion, no *mine* and *thine* distinct; but only that to be every man's that he can get; and for so long as he can keep it.

Source: Thomas Hobbes, *Leviathan*, Chap. 13.





*Bill Watterson's Hobbes shows Calvin just how inconsistent it is to want to act on one's own self-interest while expecting others not to do the same.*

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