



# Moral Issues in Business

William H. Shaw & Vincent Barry

5th Edition

# MORAL ISSUES IN BUSINESS

## Fifth Edition

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## PREFACE

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As *Moral Issues in Business* enters its fifth 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 hard 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 moral choices that people face in the world of business. 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 them with an understanding of the moral, social, and economic environments within which those problems occur; to introduce them to the ethical concepts that are relevant for resolving those moral problems; and to assist them 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, the book has been thoroughly revised, and there are significant changes throughout. In revising, we have updated material 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 book that they will find clear, understandable, and engaging. With two chapters on moral problems in the workplace, the book now 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, worker participation, day care and maternity leave, the “mommy track,” and employee health and safety, among other issues.

We have increased the number of case studies to forty-four, adding nine new ones and revising and updating 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 discussions and the application of ethical concepts.

We have also expanded the number of readings to thirty-three, fourteen of which are new. These include essays on drug testing, sexual harassment, employee rights, unions, multinational corporations, the ethics of sales, and much more. The readings are intended to supplement 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. Although we have added some fresh and timely essays, we have retained those readings that previous users report work well in the classroom.

## 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 increased amount of

material we have provided, teachers have greater flexibility than ever 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 quite 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 and Hanson's "It's Good Business") and begin with the topics that interest them. Other instructors may choose to start with the analysis of 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 will 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 Sterling Harwood for his help and the reviewers of this and the previous edition for their thoughtful suggestions and useful criticisms: George E. Derfer, Salvatore DeSimone, Robert Winslow Faaborg, Frank Fair, Ralph Forsberg, Leslie Francis, Steven Jay Gold, Samuel Gomez, Michael Harrington, Robert M. Johnson, Dinah Marie Payne, Christine Pierce, Brian Steverson, and Robert Sweet.

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# PART I

## MORAL PHILOSOPHY AND BUSINESS

### CHAPTER 1

#### THE NATURE OF MORALITY

Sometimes the rich and mighty fall. Ivan F. Boesky's world began crumbling in the last months of 1986. On April 23, 1987, he formally pleaded guilty in federal court to a felony charge of stock manipulation. Although everyone in the courtroom realized that he had been involved in a wide range of criminal activities, Boesky was not charged on any further counts because he was cooperating with the authorities in their investigations. But a brilliant career had nose-dived and crashed.

Boesky had been Wall Street's best-known speculator in corporate takeovers. During the boom months in the stock market, as various corporate wars of merger and acquisition were fought, Boesky was often behind the scenes as the institutional fates of billion-dollar organizations were decided. He became rich in the process, but he was also a symbol of the new breed of corporate raiders and Wall Street financiers. *Time* had put him on its cover. Now everybody knew that he was crooked.

When word of Boesky's impending indictment was first made public, Wall Street was awash in rumors. Boesky was a big fish; if he did time for illegal insider trading, it seemed clear that other giants of commerce would too. And Boesky was soon telling authorities shocking tales of corruption on Wall Street and disclosing wrongdoing by a number of major securities firms. When the extraordinarily sustained bull market led to an

equally spectacular crash in October 1987, some business writers drew comparisons with the shady characters who had dominated the stock market before the great crash of 1929 and who were later jailed for their illegal activities. Nor was Wall Street's reputation helped much by the well-publicized 1987 drug bust of some of its top brokers, caught by a federal sting operation in the act of offering cocaine to their clients along with the usual array of stock options.

Against this backdrop, Federal Judge Morris Lasker decided that Boesky should go to jail as a warning to others, despite his having cooperated with authorities. On December 18, 1987, Lasker sentenced the former arbitrageur to three years in jail. In addition, Boesky had already paid a \$100 million civil penalty and still faced scores of lawsuits.

Boesky implicated a number of friends and associates, including a flamboyant stock speculator who was arrested in possession of an Israeli assault rifle after threatening the life of Boesky and Boesky's chief trader. Boesky also led investigators to Wall Street's biggest behind-the-scenes player, Michael R. Milken, junk-bond chief at Drexel Burnham Lambert.

Milken was Wall Street's whiz kid, 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 who worked at Drexel's junk-bond operation and working twelve to thirteen hours a day,

seven days a week, Milken helped transform the world of American business and finance. He also made himself fantastically wealthy and turned Drexel from a second-rank firm into a Wall Street powerhouse.

In 1988 the Securities and Exchange Commission (SEC) brought a 184-page civil complaint and criminal charges against Drexel. Among other things, the company had “parked” stocks with Boesky. To manipulate the market, 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 in 1990.

Milken himself was involved in these illegal deals and much, much more. In 1989 the government brought the full force of the federal racketeering law against him for illegal insider trading and various fraudulent activities, and a federal grand jury returned a ninety-eight-count indictment. As a result of intense negotiation, Milken pleaded guilty in April 1990 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. Seven months later, Federal District Judge Kimba M. Wood sentenced Milken to ten years in prison for those six crimes. After Milken serves his time, he faces a three-year period of probation, during which he will be required to serve 5,400 hours of community service.

Although the topic of business ethics has long interested the popular media, the Boesky, Milken, and other Wall Street scandals have combined with the crash of the savings and loan industry—where federal au-

thorities estimate that fraud contributed to more than 40 percent of thrift failures<sup>1</sup>—to keep it almost continuously in the headlines. In the newspapers and on television, commentators worry that greed is running rampant in the business world—that its leaders are more interested in fast profits through corporate takeovers, stock maneuvers, and financial legerdemain than in making money through the more time-honored practice of actually producing goods and competing with them in the marketplace. The nation’s recent crop of MBAs has also come in for a drubbing, with various pundits alleging that our future captains of finance and industry are devoid of any sense of social responsibility and uniquely single-minded in their pursuit of personal gain.<sup>2</sup>

Although business ethics makes good copy for the media, not all moral issues in business involve the giants of Wall Street or cocaine sales, and few cases of business ethics gain wide publicity. The vast majority of them involve the mundane, uncelebrated moral challenges that working men and women meet daily. 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 pre-employment 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?



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 relation 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, such that “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, is a worker ever right in “blowing the whistle”? Under what conditions, if any, can such an act be justified? Is

a worker ever morally obliged to blow the whistle?

One difficulty in talking about business ethics is that “business” and “businessperson” have various meanings. “Business” may denote a corner hamburger stand or a corporation that does business in several nations. A “businessperson” may be a gardener engaged in a one-person operation or a corporation 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 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 you will come across 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.

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. If, for instance, you are to discover guidelines for moral decision making within an organization, you 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 have a more useful basis 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 American 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 for moral behavior 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, artistic—but the violation does not pose a serious threat to human well-being.

One characteristic of *moral standards* that distinguishes them from others is that they concern behavior that can be 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 areas 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; artistic standards by art critics and academics. 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 you 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 considered bad etiquette to chew with your mouth open or to use obscene language in public; it is considered good etiquette to say “please” when requesting and “thank you” when receiving and to hold a door open for someone entering immediately behind us. Good business etiquette typically calls for writing follow-up letters after meetings, returning phone calls, and dressing appropriately. It is commonplace to judge people’s manners as “good” or “bad” and the conduct that reflects them as “right” or “wrong.” “Good,” “bad,” “right,” and “wrong” here simply mean socially appropriate or so-