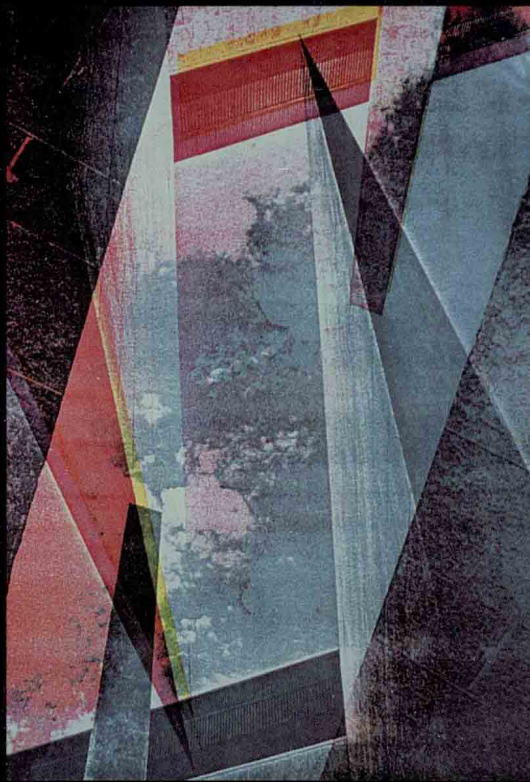


ETHICS AND THE CONDUCT OF BUSINESS



JOHN R. BOATRIGHT

Ethics and the Conduct of Business

John R. Boatright

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Preface

In little more than a decade, the field of business ethics has grown from the interest of a few philosophers into an interdisciplinary area of study that has found a secure niche in both the liberal arts and the standard business curriculum. Credit for this development belongs to many individuals—both philosophers and business scholars—who have succeeded in relating ethical theory to the various problems of ethics that arise in business. They have shown not only that business is a fruitful area for philosophical exploration but also that practicing managers in the world of business can benefit from the results.

Ethics and the Conduct of Business is a relatively comprehensive and up-to-date discussion of the most prominent issues in the field of business ethics and the major positions and arguments on these issues. There has been no attempt to develop a distinctive ethical system or to offer a supposed “right answer” in every instance. The field of business ethics is marked by diversity and reasonable disagreement, and a good text should reflect this.

The focus of the book is primarily on ethical issues that corporate decision makers face in developing policies about employees, customers, and the general public. The positions on these issues and the arguments for them are taken from a wide variety of sources, including economics and the law. The study of ethical issues in business is neither confined to a single academic discipline, nor is it limited to the academic world. The issues selected for discussion are widely debated by legislators, judges, government regulators, business leaders, journalists, and, indeed, virtually everyone with an interest in business. Hence, readers wholly unacquainted with ethical theory will find most of the material in this book familiar and accessible.

An underlying assumption of this book, however, is that ethical

theory is essential for a full understanding of the arguments commonly offered for positions on virtually every issue in business ethics. Fortunately, the amount of theory is relatively small, and its purpose is to clarify and further develop positions and arguments presented primarily by nonphilosophers. Part One provides a reasonably comprehensive survey of the relevant ethical theory. Readers wishing to tackle the substantive ethical problems in the remaining chapters need only refer to the basic material on utilitarianism and Kant's ethics. Instructors may want to assign only this material initially and return periodically to pick up more theory.

The book contains a substantial amount of legal material. The reason is twofold. First, most issues in business ethics have been addressed by the law, and the resulting legal framework is part of the "reality" that must be considered by any decision maker. It is pointless to discuss what a manager ought to do in a discrimination case, for example, without knowing the relevant law. Second, and more important, the law incorporates a large body of settled moral opinion about business practice. A close examination of the wording of certain laws, their legislative history, and relevant judicial decisions yields many valuable ethical insights. Questions of ethics often arise when the law is not yet fully formed or is in a state of transition so that we are forced to consider what the law ought to be, and a resolution of legal uncertainty often represents a consensus on the ethical issues involved. Business ethics and business law thus have a great deal in common.

An attempt has been made, whenever possible, to incorporate material from the functional areas of business and the actual practice of corporations. If the discussion of ethical issues in business is to have any relevance for management decision-making, it must take into account the outlook of people in business and the environment in which they operate. And as the field of business ethics becomes increasingly more interdisciplinary, it is essential that a text cross the boundary between philosophy on the one hand and economics, management, marketing, finance, and accounting on the other. Although maintaining a strong philosophical orientation, this book is designed to be used both as a text in a strictly philosophical business ethics course and in one taught in a school of business.

Many people have aided me by their patient encouragement and thoughtful advice. The following people have read one or more chapters and provided me with much useful criticism: Norman E. Bowie, the University of Minnesota; Thomas Donaldson, Georgetown University; Robert E. Frederick, Bentley College; Kenneth E. Goodpaster, College of St. Thomas; Lisa H. Newton, Fairfield University; Lynn Sharp Paine, Harvard Business School; and Patricia H. Werhane, Loyola University Chicago. Jan Willem Bol and John Walton in the marketing department

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CHAPTER ONE

Introduction: Ethics in the World of Business

A sales representative for a struggling computer supply firm has a chance to close a multimillion-dollar deal for an office system to be installed over a two-year period. The machines for the first delivery are in the company's warehouse, but the remainder would have to be ordered from the manufacturer. Because the manufacturer is having difficulty meeting the heavy demand for the popular model, the sales representative is not sure that subsequent deliveries could be made on time. Any delay in converting to the new system would be costly to the customer; however, the blame could be placed on the manufacturer. Should the sales representative close the deal without advising the customer of the problem?

The director of research in a large aerospace firm recently promoted a woman to head an engineering team charged with designing a critical component for a new plane. She was tapped for the job because of her superior knowledge of the engineering aspects of the project, but the men under her direction have been expressing resentment at working for a woman by subtly sabotaging the work of the team. The director believes that it is unfair to deprive the woman of advancement merely because of the prejudice of her male colleagues, but quick completion of the designs and the building of a prototype are vital to the success of the company. Should he remove the woman as head of the engineering team?

The vice-president of marketing for a major brewing company is aware that college students account for a large proportion of beer sales and that people in this age group form lifelong loyalties to particular brands of beer. The executive is personally uncomfortable with the tasteless gimmicks used by her competitors in the industry to encourage drinking on campuses, including beach parties and beer-drinking contests. She worries about the company's contribution to underage drinking and alcohol abuse among college students. Should she go along with the competition?

Finally, the CEO of a mid-size producer of a popular line of kitchen appliances is approached about merging with a larger company. The terms offered by the suitor are very advantageous to the CEO, who would receive a large severance package. The shareholders of the firm would also benefit, since the offer for their stock is substantially above the current market price. The CEO learns, however, that plans call for closing a plant which is the major employer in a small town. The firm has always taken its social responsibility seriously, but the CEO is now unsure of how to balance the welfare of the employees who would be thrown out of work and the community where the plant is located against the interests of the shareholders. He is also not sure how much to take his own interests into account. Should he bail out in order to enrich himself?

These four hypothetical examples give some idea of the ethical issues that arise at all levels of business. The individuals in these cases are faced with questions about ethics in their relations with customers, employees, and members of the larger society. Frequently the ethically correct course of action is clear, and people in business act accordingly. Exceptions occur, however, when there is uncertainty about ethical obligations in particular situations or when considerations of ethics come into conflict with the practical demands of business. The sales representative might not be sure, for example, about the extent to which he is obligated to provide information about possible delays in delivery. And the director of research, although convinced that discrimination is wrong, might still feel that he has no choice but to remove the woman as head of the team in order to get the job done.

In deciding on an ethical course of action, we can rely to some extent on the rules of right conduct that we employ in everyday life. Deception is wrong, for example, whether we deceive a friend or a customer. And corporations no less than persons have an obligation not to discriminate or to cause harm. Unfortunately, business activity also has some features that limit the applicability of our ordinary ethical views. What we ought to do depends to some extent on our situation and on the particular roles we occupy, and slightly different rules or codes of ethics are needed to guide us in the different departments of our lives. The CEO, by virtue of his position, has responsibilities to

several different constituencies, and his problem is, in part, to find the proper balance.

One of the features that distinguishes business activity is its *economic* character. In the world of business, we interact with each other not as family members, friends, or neighbors but as buyers and sellers, employers and employees, and the like. Trading, for example, is often accompanied by hard bargaining, in which both sides conceal their full hand and perhaps engage in some bluffing. And a skilled salesperson is well-versed in the art of arousing a customer's attention (sometimes by a bit of puffery) to clinch the sale. Still, there is an "ethics of trading" that prohibits the use of false or deceptive claims and tricks such as "bait-and-switch" advertising.

Employment is also recognized as a special relation with its own standards of right and wrong. Employers are generally entitled to hire and promote whomever they wish and to lay off or terminate workers without regard for the consequences. (This right is being increasingly challenged, however, by those who hold that employers ought to fire only for cause and to give employees an opportunity to defend themselves.) Employees also have some protections, such as a right not to be discriminated against or to be exposed to workplace hazards. There are many controversies in the workplace, such as the rights of employers and employees with regard to drug testing.

The ethics of business, then, is at least in part the ethics of economic relations—such as those involving buyers and sellers and employers and employees. So we need to ask, what are the rules that ought to govern these kinds of relations? And how do these rules differ from those that apply in other spheres of life?

A second distinguishing feature of business activity is that it typically takes place in large, impersonal *organizations*. An organization, according to organizational theory, is a hierarchical system of functionally defined positions designed to achieve some goal or set of goals. Consequently, the members of a business organization, in assuming a particular position—such as sales representative or vice-president for marketing or CEO—take on new obligations to pursue the goals of the firm. Thus, the marketing executive is not free to act solely on her own standards of good taste and social responsibility at the expense of sales for the brewing company. Nor can the CEO rightfully ignore the interests of shareholders and consider only the impact of the merger on one group of employees of the company and their community any more than he can consider only his self-interest.

The organizational nature of work does not require individuals to abandon their view of right and wrong. However, jobs in business organizations carry an additional set of obligations that must be balanced against those of everyday life. Engineers working on the Ford Pinto project, for example, were aware of defects in the design of the car that

caused it to explode in rear-end collisions, and they have been widely criticized for not warning the public. Richard T. DeGeorge defends them by arguing that *this* is not what they were being paid to do.¹ The job required them to report their concerns about the safety of the Pinto to Ford management, which then had the responsibility to make a final decision on whether to proceed with production. And as employees, they had an obligation to be loyal to the company and not to divulge confidential information except under carefully specified conditions.

Whistle-blowing is a classic example of a conflict between two kinds of obligations: the general obligations of morality that all people have, such as the obligation to protect others from harm by warning them of a danger, and the specific obligations that people assume as part of a particular role. Obligations of both kinds also come into conflict with organizational imperatives. Ford executives were under tremendous pressure, for example, to have a subcompact car in dealers' showrooms in time for the 1971 season to compete with Japanese imports. Balancing the demands of morality with the pursuit of the goals of an organization creates difficult situations for managers.

This book is about the ethical issues that arise for managers—and, indeed, for all people, including employees, consumers, and members of the public. Corporate activities affect us all, and so the conduct of business is a matter of concern for everyone with a stake in ethical management. The ethical issues we will be examining are those considered by managers in the ordinary course of their work, but they are also issues that are discussed in the pages of the business press, debated in the halls of Congress, and scrutinized by the courts. This is because ethical issues in business are closely tied to important matters of public policy and to the legislative and judicial processes of government. They are often only part of a complex set of issues.

Decision-making in business, moreover, involves many factors, of which ethics is only one. Economic and legal considerations, along with political realities and technological developments, play a central role. In order to gain an understanding of the relevance of ethics for the conduct of business, it will be useful to begin with a description of three points of view from which decisions in business can be made: the moral, the economic, and the legal. Then we can see how these points of view can be integrated to form an approach to business decision-making that can aid people facing the kinds of issues described at the beginning of this chapter.

THE MORAL POINT OF VIEW

A decision can be made from many different points of view. Closing the deal for the sale of an office computer system is good from a strictly

economic or business point of view, as long as there are no repercussions. The quick completion of the design for the airplane component and increasing beer sales among college students are good for the same reason. The individuals involved might also evaluate different courses of action from the point of view of their own careers and ask, what is best for me? What should I do from the point of view of self-interest? Or the individuals involved might consider the law and take a legal point of view. Would removing the woman from her job as head of the engineering team be considered illegal sexual discrimination? Would it be legal to oppose the merger merely to avoid closing the plant? Finally, the individuals involved might consider the moral point of view when making their decisions. Morally speaking, what is the best thing to do?

In order to understand what it means to decide something from the moral point of view, let us consider the case of the sales representative. In deciding whether to disclose the possible delays in delivery, he might ask: What is accepted business practice? What would my boss expect me to do? What would other sales representatives in my company or the industry do? What kind of conduct is generally regarded as legally permissible? To proceed in these ways is to seek guidance from what is conventionally thought by one's peers or society at large to be right or wrong. Unable to find an answer, or perhaps wanting to make sure that he had found the correct one, the sales representative might push further and ask for the reasons that he ought to act in one way rather than another. Three reasons readily suggest themselves.

First, informing the customer about the possibility of a delay might result in losing the sale and a handsome commission. Judged purely by considerations of benefit to himself, he ought to close the deal, unless, of course, he would suffer greater harm if the company is unable to fulfill the contract. If benefit and harm to himself are reasons for acting in some way, why should he not consider the benefit and harm for the customer as well? The fact that the customer might suffer substantial losses would seem to be a morally relevant reason for revealing the possible delivery problems. But the sales representative might think, "I have no obligation to look out for this customer's welfare. If he suffers a loss, that's his problem, not mine; I am not going to pass up a sale to protect him."

On further reflection, however, he might realize that trust is essential in his line of work. If he and the company acquire a reputation for dishonesty, doing business will be more difficult in the future. In addition, if trust is lost in business as a whole—if buyers and sellers can no longer rely on each other's word in their dealings, then everyone suffers. Full disclosure in trade is of value because, on the whole, it helps everyone. In terms of benefit and harm for all concerned, therefore, it is a good policy to inform a customer of matters such as the possibility of delays.

Second, insofar as not revealing the information is misrepresentation, it is a form of lying; and we have been taught since childhood that lying is wrong. Misrepresentation does not require that something false actually be said. If the sales representative assures the customer that there will be no problem with the deliveries, then he is lying. But a person can lie by remaining silent or even saying something true. Consider a person selling a used car who says that the transmission was checked by a mechanic only last week but fails to add that the mechanic found serious problems. Since the seller's words would lead a hearer to conclude that the transmission is in sound condition, misrepresentation has occurred.

If we wish to push the matter further, we can ask, what is morally wrong with lying or misrepresentation? If we appeal to the harm done, so that the rule Do not lie is itself based on benefit and harm, then this second reason is no different from the first. However, a different line of reasoning can be sketched as follows. To intentionally bring about a false belief so that another person cannot make a rational decision about some matter of importance is to manipulate that person. Manipulating, or using, another person is morally objectionable because it involves treating people as "things" for satisfying our desires and preventing them from acting to satisfy their own desires. In short, manipulation shows a lack of respect for the essential humanity of others. And the idea of respect for persons is an important moral consideration—different from benefit and harm—that supports the commonly accepted view that lying is wrong.

Third, the sales representative might ask, how would my action appear to the customer were he to know the full facts? Or how would I view it if I were in the customer's place? Would I want to be treated in the same way? These questions suggest a line of reasoning that is commonly expressed by the Golden Rule: Do unto others as you would have them do unto you. Part of the force of this rule is its insistence on equality, which is an important element of fairness or justice. To treat others in ways that we would not like to be treated is to make exceptions for ourselves and hence to depart from strict equality. The point is also expressed in the familiar slogan, "What's fair for one is fair for all." Assuming that the sales representative would not want to have important information withheld from him, then it would be wrong for him to withhold the information from the customer.

Features of the Moral Point of View

The moral point of view has two important features.² First is a willingness to seek out and act on *reasons*. The best action, according to one writer, is "the course of action which is supported by the best reasons."³ This does not get us very far without some account of what