

# Business Ethics

## P13601



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**LECTURE 2**



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UNITED KINGDOM • CHINA • MALAYSIA



# Ethical Theories and Business Ethics



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# Morality, Ethics and Ethical Theory



According to the textbook:

- “**Morality** is concerned with the norms, values and beliefs embedded in social processes which define right and wrong for an individual or a community.”
- “**Ethics** is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for any given situation.”
- “These rules and principles are called **ethical theories**.”

# Western Ethical Theories



- Ancient Tradition: Greek and Roman Philosophers like Plato and Aristotle
- Christianity & Feudalism: Right and wrong is decided by God. Popes and Kings (and their subordinates) have the authority to speak for God.
- Enlightenment (17<sup>th</sup> – 18<sup>th</sup> century): Right and wrong should be decided by reason alone; rejection of tradition, and emotions.
- Most modern Western ethical theories are rational (based on reason).

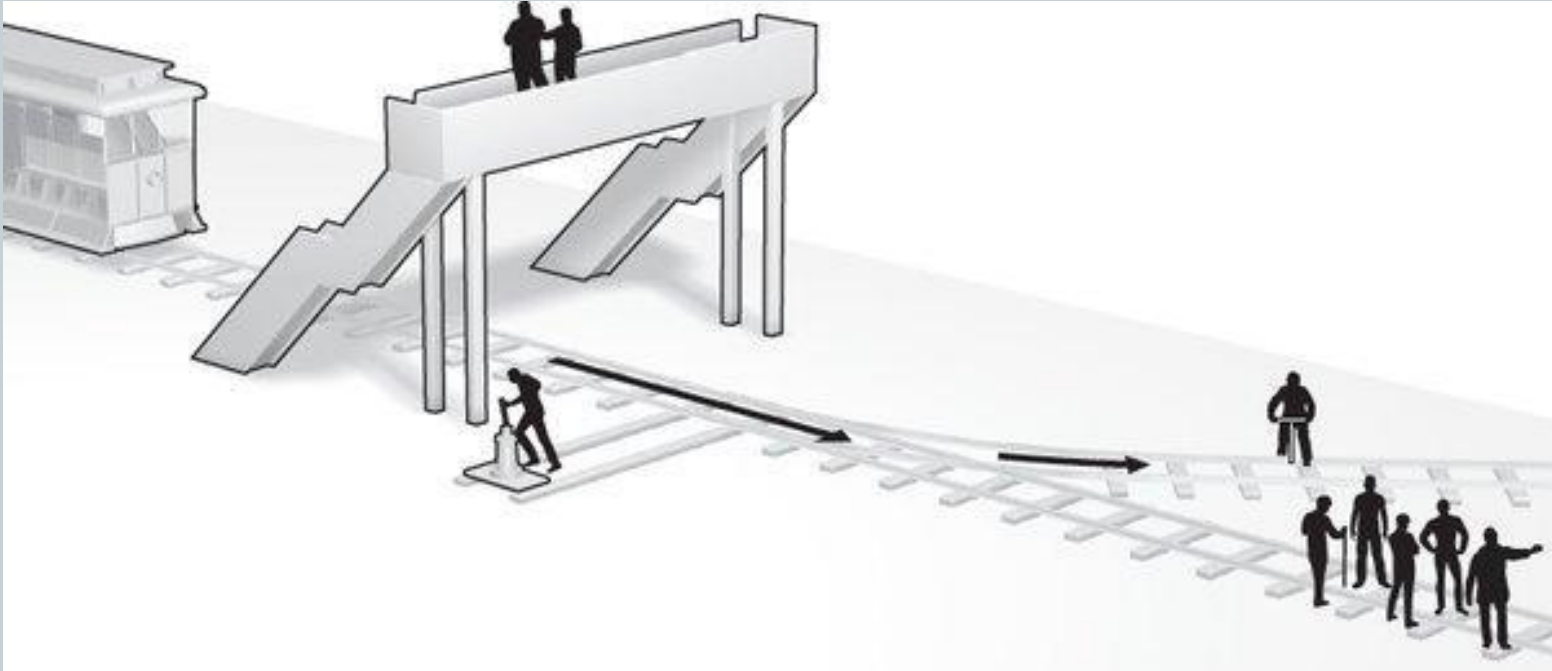
# Ethical Theory



- A framework of rules and principles by which we can distinguish right from wrong, or good from bad, using reason.
- Can be used to explain why someone thinks that something is right or wrong.
- Can be used to justify actions.
- Can be applied to evaluate the actions of individuals and firms.

# A Thought Experiment

- The Trolley Problem:



# A Thought Experiment

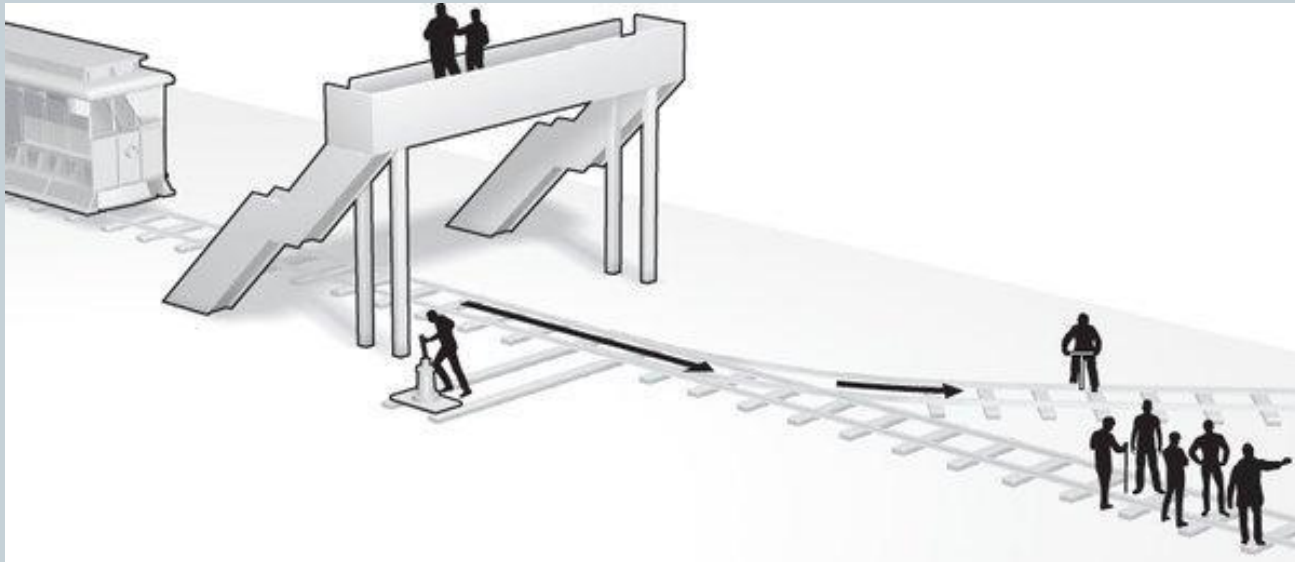


- The Trolley Problem:

“There is a runaway trolley barreling down the railway tracks. Ahead, on the tracks, there are five people; the trolley is headed straight for them. There is no way that they can get off the track before the train hits them. You are standing some distance off in the train yard, next to a lever. If you pull this lever, the trolley will switch to a different set of tracks. Unfortunately, you notice that there is one person on the side track. If you divert the trolley, it will hit this other person for sure.”

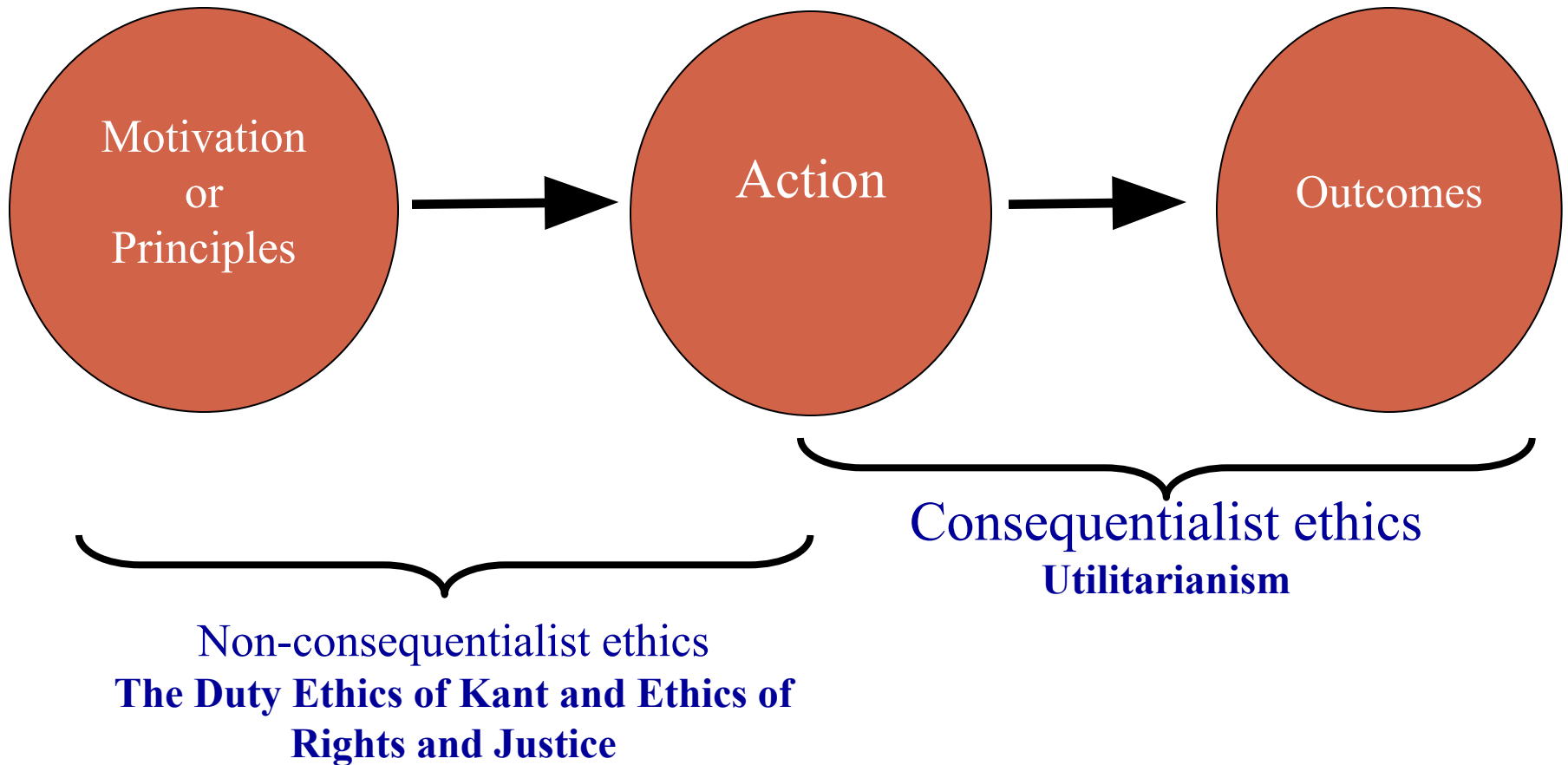
# A Thought Experiment

- You have two options: (1) Pull the lever, diverting the trolley onto the side track where it will kill one person. (2) Do nothing, and the trolley kills the five people on the main track.
- What do you do?





# Two Main Types of Ethical Theories



# Utilitarianism



- Is concerned with consequences
- The General Principle:  
'An action is morally right if it results in the greatest amount of good for the greatest amount of people affected by the action.'
- The simple and easy way to understand utilitarianism is as a cost-benefit approach to ethics
- The most commonly employed ethical theory in the West, but often unconscious (business, economics, politics, etc.)

# Slides from Lecture 1



Misconduct or “wrongdoing” is **costly**

- For companies
- For individuals
- For society
- For the business sector as a whole

# Slides from Lecture 1

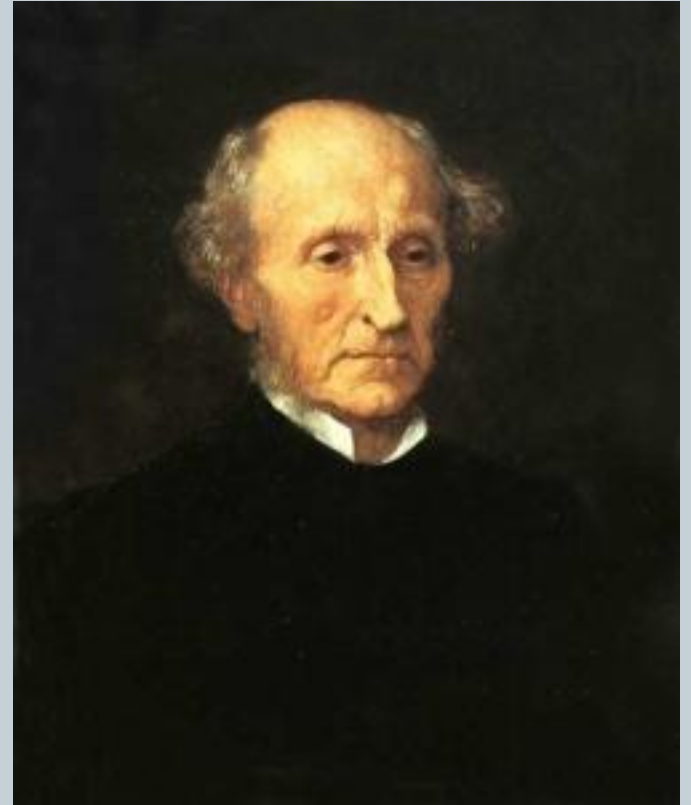


Company	Year	Issue	Result
Nike	1996	Child labor. Life magazine showed photo of Pakistani child sewing Nike football.	Nike stock declines 48% in 19 months, destroying \$12.2 billion in market value; extensive negative media coverage.
Enron	2001	Accounting fraud and bribery. Reported false profits, hid debts, and bribed foreign officials.	Bankruptcy and collapse.
Arthur Andersen	2001	Enron's accounting firm.	Dissolved.
Coca-Cola	2003	Residents of Plachimada, Kerala, India angered by reports of water pollution and shortage caused by a local Coca-Cola bottling plant.	Local government refuses to renew operating license. \$25 million plant closed. NGOs call for worldwide boycotts.

# What is “Good”?



- Happiness
- Pleasure, freedom from pain
- Utility
  
- The motive is irrelevant to goodness
- Only the outcome matters



John Stuart Mill (1806-1873)

# Slide from Lecture 1



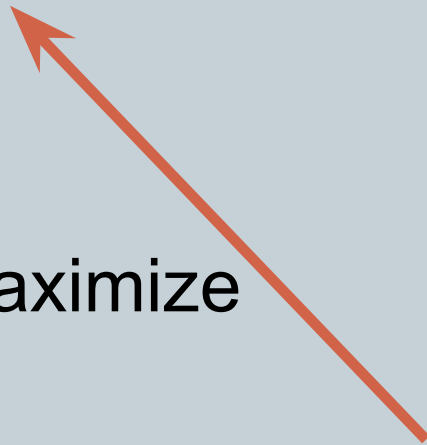
**Benefit**

**Harm**

Maximize

Minimize

**BUSINESS**



# Ethical Dilemma



Collusive efforts of local manufacturers have barred the ROLL Bike company from entering a large Asian market. ROLL's management expects to net \$10 million (USD) yearly from bicycle sales if it could penetrate the market. Last week a businessman from the country contacted ROLL's management and assured them that he could smooth the way for the company to sell in his country for a 'grease' fee of \$1 million.

**Q: If you were responsible, would you pay the so-called 'grease' fee?**

(Certainly not --- Don't know --- Certainly yes)

# Victimless Crimes



- Cheating on an exam
- Paying a bribe
- Is anyone hurt by these actions?
- Individual acts do not seem to hurt anyone



# Victimless Crimes



- **Rule utilitarianism** looks at a **class** of actions and asks whether in principle it produces the greatest amount of good for the greatest amount of people
- Thus: What would happen if everyone cheated on their exams?
- What if everyone engaged in bribery
- The result would be more harm than good
- Rule utilitarianism and **act utilitarianism** often lead to different conclusions

# Problems of Utilitarianism 1



- How do we assign values to (quantify) pleasure and pain?
- How can we compare one person's happiness to another's?
- How can we compare one person's pleasure to another's pain?
- Is everyone pleasure and pain equally valued?

# Ford Pinto



# Ford Pinto Case



- Recall & fix: Cost would be \$11 per vehicle, with 12.5 million vehicles needing to be recalled. The total cost would be **\$137.5 million** (and less trunk space).
- Do nothing: Predicted 180 people could die, 180 people could suffer serious burns, and 2,100 vehicles could be destroyed by fire. Based on estimates, total cost would be **\$49.5 million** (180 deaths x **\$200,000** + 180 serious burns x \$67,000 + 2,100 vehicles x \$700)  
(Schwartz & Saiia, 2012)

# Problems of Utilitarianism 2

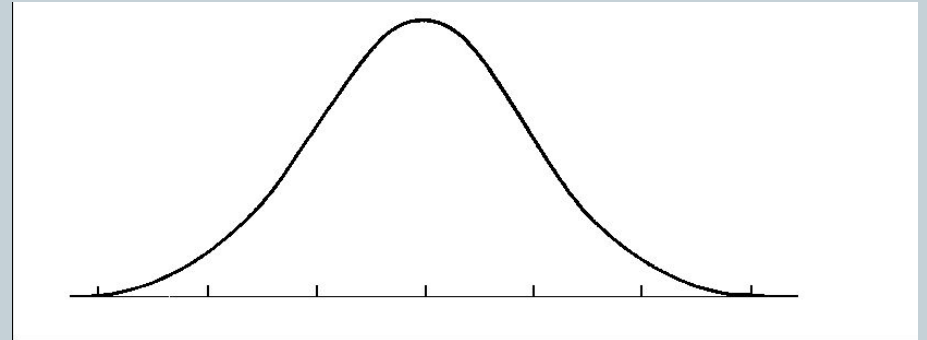


- We can't perfectly predict consequences because future is unknown.
- What if the one person in the trolley example would have discovered a cure to cancer later in life?
- What if one of the people who survives becomes a mass murderer?
- Long vs. short term consequences: Sometimes these differ drastically

# Problems of Utilitarianism 3



- Indifferent to the distribution of good or happiness.



- Could be used to justify things we generally consider immoral, such as slavery or forced labor.
- Problems of ends justifying the means.

# Utilitarianism



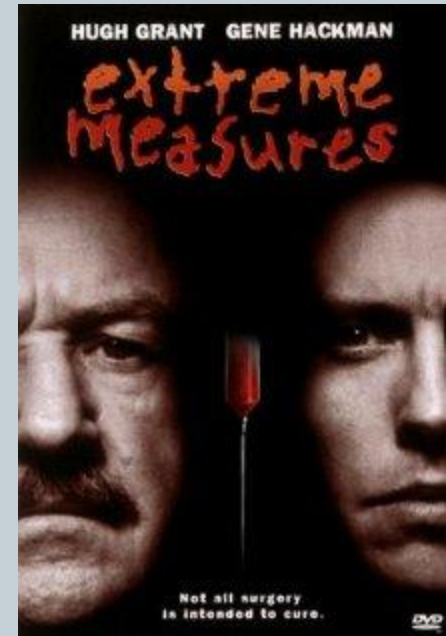
- Note that utilitarianism is not egoism
- Doing cost-benefit analysis to think of how only you (or only your company) will be affected is egoism (i.e. Ford Pinto).

# Movie Clip



- **Extreme Measures (1996)**

Summary: A well-respected, older doctor (Gene Hackman) has been working on cure to paralysis. A young doctor (Hugh Grant) discovers that he has been experimenting on patients without their permission. He himself was briefly paralyzed.





# Ethics of Duty (Deontology)

- Proposed by the 18th century German philosopher Immanuel Kant
- Focuses on defining the *Categorical Imperative*: An ethical theory or law our acts must conform to under all conditions
- Independent of consequences
- *a priori* moral law



Immanuel Kant (1724-1804)

# Kant's Three Maxims



- *Consistency* – “Act only according to that maxim by which you can at the same time will that it should become a universal law”
- *Respect for human dignity* – “Act so that you treat humanity, whether in your own person or in that of another, always as an end and never as a means only”
- *Universal acceptability* – “Act only so that the will through its maxims could regard itself at the same time as universally lawgiving”

# Kant's Three Maxims



- *Consistency* – Apply the same standard to your action that you would to others'. Don't make an exception for yourself.
- *Respect for human dignity* – Don't use others. Treat them as an end not as a means.
- *Universal acceptability* – Act only as you would if your actions were known to all.
- These are different formulations of one *categorical imperative*, according to Kant, and therefore equivalent.

# Kantian Ethics



- Kant's deontology sees each human being as possessing **intrinsic worth** or **dignity** and deserving of **respect** because each is an autonomous, thinking person capable of making moral choices  
(*Intrinsic* = belonging to the essence of a thing, part of its reality; not having to be gained or earned)
- Thus it is wrong to use others as a means to an end (Maxim 2).
- Intentions matter: An act is only good if motivated by good intentions (good will, benevolence)

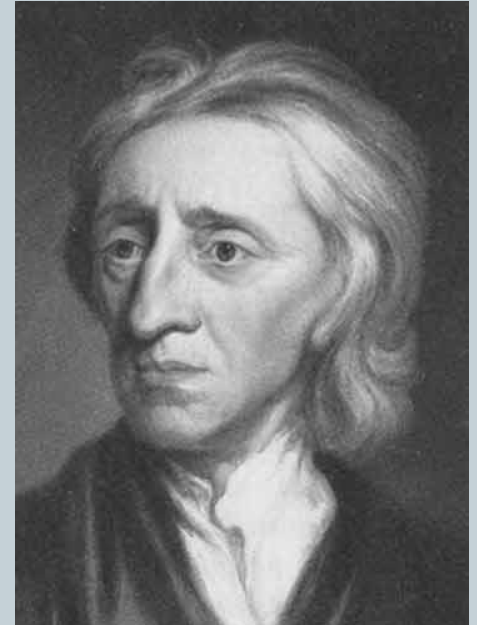
# Critiques of Deontology



- No attention to consequences!
- Overly rational. Overestimates people's ability to use reason to apply the three maxims - many people struggle to understand and apply the three maxims.

# Natural Rights

- Similar to Kantian ethics in its respect for individual's dignity, but does not rely on rather complex philosophical arguments
- Natural Rights theories simply posit everyone has certain rights that must not be violated simply by virtue of being human
- For example, John Locke argued that humans (by their very nature) have a right to life, liberty and property, and thus, that we all have a duty to respect these rights with regard to others (and have our rights, in turn, respected)



John Locke (1632-1704)

# Universal Human Rights



- Both Kant and Locke, and various other scholars, have informed current conceptions of human rights
- For example, the Universal Declaration of Human Rights (1948) states, “All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.”
- It includes the right to life, liberty, security, property, equality before the law, freedom of thought, conscience and religion, and so on

# Problems of Rights



- Different people's rights can be in conflict with no clear way to decide which to prioritize.



# Ethics of Justice



- Justice (as fairness) allows us to decide between competing claims or rights
- Justice relies on the establishment of just systems
- John Rawls proposed that a just system should
  1. Guarantee basic human rights and freedoms
  2. Ensure that even the worst-off are better off than they would be otherwise
  3. Give equal access to positions of authority and decision-making



John Rawls

# Rawls' Original Position



- Imagine all human beings were assembled someplace before time. Suppose they had to create a system to live in (social contract) but no one knew who they would be in life (Veil of Ignorance). In this condition people would be motivated to create a just system. Thus a just system would be one that the participants in this Original Position could agree to.

# Feminist Ethics



- Critique the ethic of justice as being male-centric, impersonal, and blind to needs and relationships
- Carol Gilligan proposed an ethic of care as an alternative, one more commonly used by women in deciding what is right or wrong
- The ethic of care is more attentive to needs and to nurturing others rather than upholding principles
- However, it is often devalued or unacknowledged due to male dominance



Carol Gilligan

# Other Ethical Theories

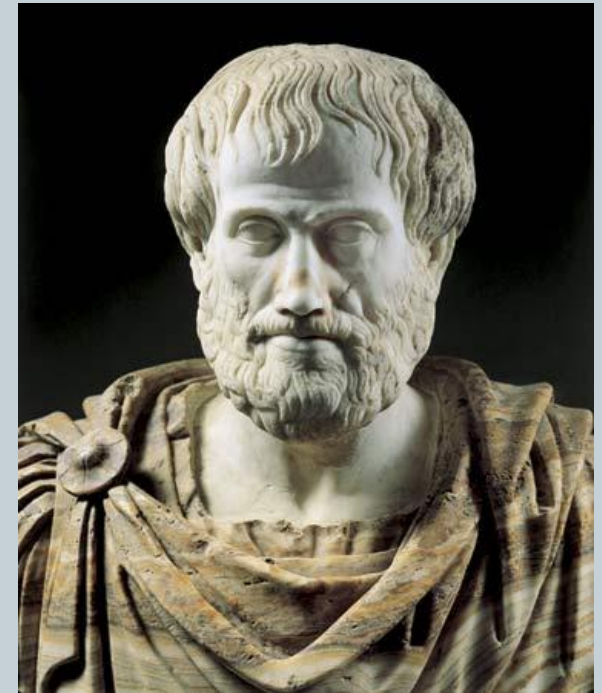


<b>Consequences</b>	<b>Act / Motivation</b>	<b>Actor</b>
Utilitarianism	Deontology	Virtue Ethics
Mill	Kant	Aristotle

# Virtue Ethics



- An act is morally right if it is what a virtuous person would do
- Unlike utilitarianism and duty-based ethics, is not concerned with identifying rules for “ethical” behavior
- Instead, is concerned with developing the moral character of the decision maker



Aristotle

# Virtue Ethics



- Emphasizes virtuous character. The formation of a virtuous character is the first step towards morally correct behavior
- Examples of virtues are Honesty, Loyalty, Moderation, Self-control
- Virtues are like habits. Once cultivated, are employed automatically. No rational deliberation needed.

# Confucian Ethics



- Derives from 儒家 (rújiā), known as Confucianism in English
- Originators: Confucius (孔子), Mencius (孟子), others
- Similar to Virtue Ethics
- Strong focus on cultivating self and being virtuous
- Ultimate goal is to become a *jūnzǐ* (君子)



**Confucius** (孔子)

# Confucian Ethics



Core Confucian virtues (*dé* 德):

- **Rén** (仁): compassion, benevolence, humaneness
- **Yì** (義): Sense of rightness, righteousness
- Following **lǐ**: norms, protocols, rituals, etiquette, propriety
- and also wisdom, reciprocity, trustworthiness and filial piety



# Confucian Ethics



- Essence of **Rén** = “**Golden Rule**” (zhong shu)
  - (1) **weak form**: people should not do to others things that they do not want others to do to them
  - (2) **strong form**: one is obligated to help others to develop morally next to personal development
- Reciprocity is important

# Confucian Ethics



- Self-cultivation and refinement based on self-regulation (not rule-based)
- One's action should conform to social norms of polite conduct
- Ethical behavior (duties) is determined by one's social role, relationships to others
- Hierarchy of relationships indicates which take precedence, from highest to lowest: “ruler and subject; father and son; husband and wife; elder and younger brother; friend and friend.”

# Confucian Ethics



- Filial piety (father-son) is the template for other hierarchical relationships (boss-subordinate, company-employee)
- Leaders should be moral exemplars for followers and show benevolence and care
- Followers should show loyalty and respect for authority
- Importance of **harmony** and collective over individual needs (but harmony is not same as sameness)

# Confucian Ethics



- How and why matter: Motives and the manner something is done is more important than what is done
- Profit-making is not bad unless done for selfish reasons

# Critiques of Confucianism



- Conservative tendency: maintenance of hierarchy, status quo. Resistance to change unless from top.
- Anti-egalitarian, opposed to democracy
- Collectivism may lead to the violation of individual rights
- Harmony may lead to suppression of disagreement
- Asymmetric/unequal reciprocity (power)
- Paternalistic leadership can reduce self-determination

# Critiques of Confucianism



- Some schools of Confucian thought encourage a negative attitude toward women and hinder gender equality
- Confucianism has been employed by oppressive regimes to ideologically legitimize their dominance over people, due to its emphasis on hierarchy

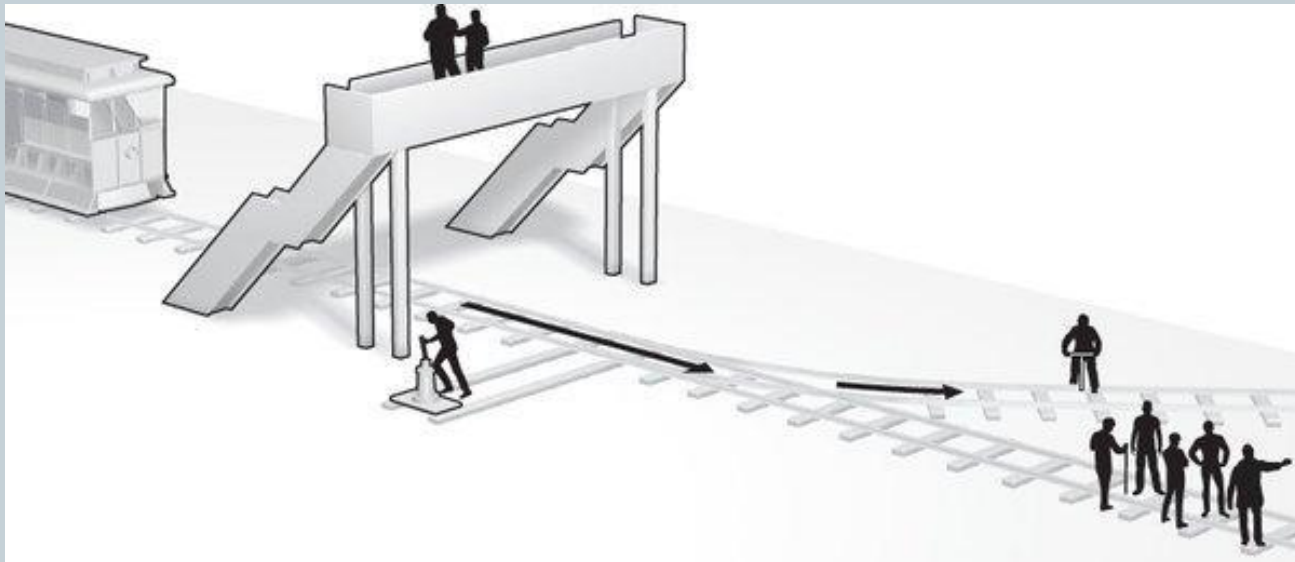
# Combining Ethical Theories



- Crane and Matten argue for **pluralism**
- They argue that we should recognize that each ethical theory can shed light on certain aspects of an issue that others cannot. Thus by combining we gain more, and overcome the shortcomings of each.
- Also argue that we should strive towards reaching a consensus on basic principles

# A Thought Experiment 2

- As before, a trolley is hurtling down a track towards five people. You are on a bridge under which it will pass, and you can stop it by dropping a heavy weight in front of it. As it happens, there is a very fat man next to you – your only way to stop the trolley is to push him over the bridge and onto the track, killing him to save five. What do you do?



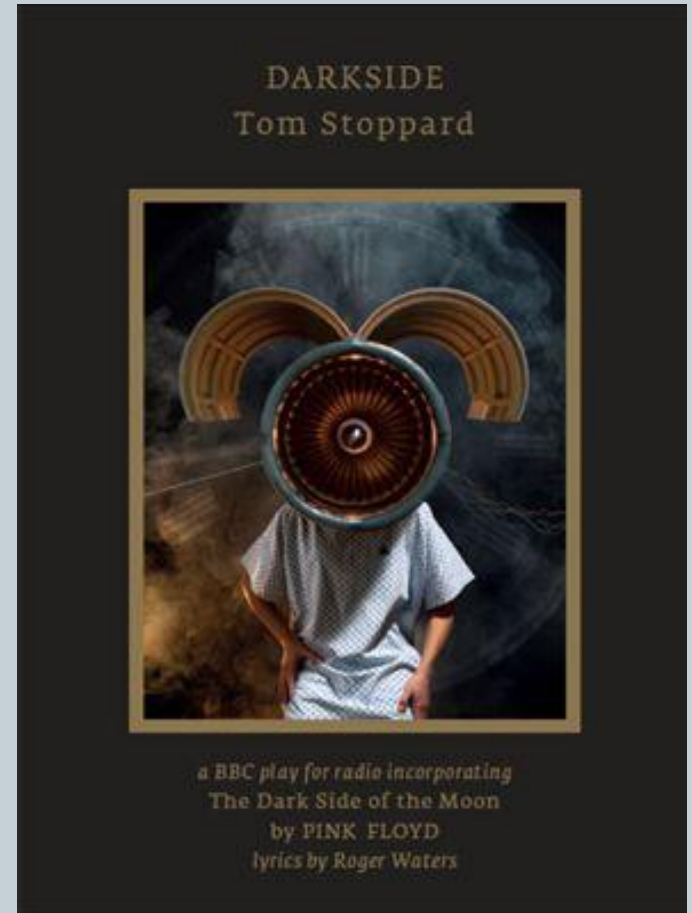


# Further Resources

For your entertainment and education:

“Darkside” BBC radio play

- Ethical theories
- The music of Pink Floyd
- The humor of Tom Stoppard



# Summary of Today's Lecture



- Introduced you to a variety of ethical theories
- Distinguished between consequentialist, non-consequentialist and virtue ethics
- Ethical theories can be used to determine what might be good or bad about different business practices
- It is best to combine them, as each one has limitations
- Ethical theories are not enough to achieve ethical behavior

# Next Lecture



- The debate surrounding Corporate Social Responsibility (CSR)
- Should business be concerned with more than, or something other than, maximizing profits?
- Read Chapter 2 and articles required for lecture 3: Friedman, 1970; Economist articles; Smith 2003; Porter & Kramer, 2011. (Provided on Moodle.)

**THANK YOU**