Chapter 3
PHILOSOPHICAL ETHICS AND BUSINESS
CHAPTER OBJECTIVES

After exploring this chapter, you will be able to:

1. Explain the ethical framework of utilitarianism.
2. Describe how utilitarian thinking underlies much economic and business decision-making.
3. Explain how the free market is thought to serve the utilitarian goal of maximizing the overall good.
4. Explain some challenges to utilitarian decision making.
CHAPTER OBJECTIVES

5. Explain principle-based, or rights-based, frameworks.
6. Explain the concept of human rights and how they are relevant to business.
7. Distinguish moral rights from legal rights.
8. Explain several challenges to principle-based ethics.
9. Describe and explain virtue-based framework of ethical character.
OPENING DECISION POINT: EXECUTIVE COMPENSATION — NEEDED INCENTIVES, JUSTLY DESERVED, OR JUST DISTASTEFUL?

- How would you describe the bonuses paid to AIG executives in March of 2009? Is it an ethical issue at all? Why or why not?
- Are there any facts that you would want to know before making a judgment?
- What alternatives to paying the bonuses would have been available to Edward Liddy?
- Do you agree that AIG had an obligation to pay the bonuses? How strong is the duty to fulfill a contract, even one requiring payment of such bonuses? When should a contract be overridden by other concerns?
- Do you think the employees deserved the bonuses?
OPENING DECISION POINT:
EXECUTIVE COMPENSATION — NEEDED INCENTIVES, JUSTLY DESERVED, OR JUST DISTASTEFUL?

- How would you judge whether or not the bonuses were effective incentives?
- Do you agree with Liddy that they were “distasteful”? Is this judgment a matter of personal opinion and taste, or is it instead a reasonable and objective judgment?
- Who are the stakeholders in the decision to pay bonuses to AIG executives? How do their interests affect the contract between AIG and its employees?
OPENING DECISION POINT:
EXECUTIVE COMPENSATION — NEEDED INCENTIVES, JUSTLY DESERVED, OR JUST DISTASTEFUL?

- During the presidential debates in October 2008, then-candidate Barak Obama said that “the Treasury should demand that money back and those executives should be fired.” Do you agree?
- Is executive compensation purely a private matter between an employer and employee, or should it be a matter of public concern and government policy?
INTRODUCTION: ETHICAL FRAMEWORKS AND TRADITIONS

- Reasons that guide an individual’s ethical judgment fall into three general categories:
  - Consequences
  - Principles
  - Personal character

- An ethical framework: An attempt to provide a systematic answer to the fundamental ethical question:

  **How should human beings live their lives?**

- Ethical frameworks provide reasons to support their answers.
RELIGIOUS ETHICS VS. PHILOSOPHICAL ETHICS

- Philosophical ethics: Provides justifications that must be applicable to all people regardless, of their religious starting points.
DECISION POINT: WHO IS TO SAY WHAT IS RIGHT OR WRONG?

- An ethical relativist holds that ethical values are relative to particular people, cultures, or times.
- The relativist denies that there are can be any rationally justified or objective ethical judgments.
- When there are ethical disagreements between people or cultures, the ethical relativist concludes that there is no way to resolve that dispute and to prove that one side is right or more reasonable than the other.
- Ethical relativists believe that ethical values depend on one’s own background, culture, and personal opinions.
DECISION POINT: APPLICATION

- Imagine a teacher returns an assignment to you with a grade of “F.”
- When you ask for an explanation, you are told that, frankly, the teacher does not believe that people “like you” (e.g., women, Christians, African Americans) are capable of doing good work in this field (e.g., science, engineering, math, finance).
- When you object that this is unfair and wrong, the teacher offers a relativist explanation. “Fairness is a matter of personal opinion,” the professor explains.
- “Who determines what is fair or unfair?” you ask.
- Your teacher claims that his view of what is fair is as valid as any other. Because everyone is entitled to their own personal opinion, he is entitled to fail you since, in his personal opinion, you do not deserve to succeed.
THE ETHICAL TRADITIONS

- **Utilitarianism:** Directs us to decide based on overall consequences of our acts.

- **Deontological ethical traditions:** Direct us to act on the basis of moral principles such as respecting human rights.

- **Virtue ethics:** Directs us to consider the moral character of individuals and how various character traits can contribute to, or obstruct, a happy and meaningful human life.
Utilitarianism has been called a consequentialist approach to ethics and social policy.

- We should act in ways that produce better consequences than the alternatives we are considering.

What is meant by “better consequences”?

- Better consequences are those that promote human well-being: the happiness, health, dignity, integrity, freedom, respect of all the people affected.

A decision that promotes the greatest amount of these values for the greatest number of people is the most reasonable decision from an ethical point of view.
Utilitarianism is identified with the principle of:

- “Maximize the overall good.”

OR

- “The greatest good for the greatest number.”

The economy and economic institutions are utilitarian:

- They exist to provide the highest standard of living for the greatest number of people.
- They do not exist to create wealth for a privileged few.
UTILITARIANISM: EXAMPLES

- Child labor
  - Compare the problematic consequences of child labor to the consequences of alternative decisions.
  - Consider also the consequences to the entire society.
  - Thus, one might argue on utilitarian grounds that child labor practices are ethically permissible because they produce better overall consequences than the alternatives.
Utilitarians tend to be very pragmatic thinkers:
  - They decide on the basis of consequences.
  - The consequences of our actions will depend on the specific facts of each situation.

No act is ever absolutely right or wrong in all cases in every situation; it will always depend on the consequences.
Utilitarian reasoning supplies support for each competing available alternative:

- Example: Banning child labor as harmful to the overall good or allow child labor as contributing to the overall good.

Deciding on the ethical legitimacy of alternative decisions requires that we make judgments about the likely consequences of our actions.

How do we do this?

- With the help of social sciences: Social science studies the causes and consequences of individual and social actions.
One movement within utilitarian thinking invokes the tradition of Adam Smith.

- Claims that free and competitive markets are the best means for attaining utilitarian goals.

Classic free market economics: Economic activity aims to satisfy consumer demand.

- The goal of free market economics is to maximize the satisfaction of wants.

- To attain the utilitarian goal, current free market economics advises to structure our economy according to the principles of free market capitalism.
INFLUENTIAL VERSION OF UTILITARIAN POLICY

- Policy experts can predict the outcome of various policies and carry out policies that will attain utilitarian ends.
- The administrative side (presidents, governors, mayors) executes (administers) policies to fulfill public goals.
CHALLENGES TO UTILITARIAN ETHICS

- Counting, measuring, comparing, and quantifying the consequences of alternative actions is very difficult.
- The principle shift occurring from one of the earliest ethical principles — “the end does not always justify the means” to the utilitarian principle — “the end justifies the means.”
SHORTCOMINGS OF UTILITARIAN ETHICS

- Forces us to examine the outcomes of our decisions.
- It is difficult to know everyone who will be affected by our decisions and how they are impacted.
- It does not exhaust the range of ethical concerns.
Deontological ethical frameworks are principle-based.

- It supplements the utilitarian approach.
- It tells us that there are some rules that we ought to follow even if doing so prevents good consequences from happening or even if it results in some bad consequences.
DEONTOLOGY: AN ETHICS OF RIGHTS AND DUTIES

- What rules should we follow?
  - Legal rules
  - Rules which are derived from various institutions in which we participate, or from various social roles that we fill.
  - Role-based rules (Business)
  - Professional rules

- The above mentioned roles are described as gatekeeper functions, which insure the integrity and proper functioning of the economic, legal, or financial system.

- These rules are a part of a social agreement, or social contract, which functions to organize and ease relations between individuals.
According to Immanuel Kant, German philosopher, there is essentially one fundamental ethical principle that we should follow:

- Respect the dignity of each individual human being.

Kant claimed that this duty to respect human dignity could be expressed in several ways.

- Act according to those rules that could be universally agreed to by all people.
- Treat each person as end in themselves and never only as means to our own ends.
HUMAN RIGHTS AND DUTIES

- The Kantian tradition claims that our fundamental human rights are derived from our nature as free and rational beings:
  - Humans do not act only out of instinct and conditioning; they make free choices about:
    - How they live their lives.
    - Their own goals or ‘ends’.
- Humans are said to have a fundamental human right of autonomy, or self-rule.
Two related rights have emerged as fundamental within philosophical ethics.

- If autonomy, or “self-rule,” is a fundamental characteristic of human nature, then the freedom to make our own choices deserves special protection as a basic right.
- Since all humans possess this fundamental characteristic, equal treatment and equal consideration is also a fundamental right.
DISTINGUISHING BETWEEN MORAL RIGHTS AND LEGAL RIGHTS

- Legal rights may be granted on the basis of legislation or judicial rulings.
- Legal rights might also arise from contractual agreements.
- One cannot contract away one’s moral rights - moral rights lie outside of the bargaining that occurs in a contract.
- Moral rights establish the basic moral framework for legal environment itself, and more specifically for any contracts that are negotiated within business.
CHALLENGES TO AN ETHICS OF RIGHTS AND DUTIES

- There is no agreement about the scope and range of ethics based rights.
- Practical problems in applying a framework of rights to real-life situations.
VIRTUE ETHICS: MAKING DECISIONS BASED ON INTEGRITY AND CHARACTER

- Virtue Ethics is a tradition within philosophical ethics that seeks a full and detailed description of those character traits, or virtues, that would constitute a good and full human life.
VIRTUE ETHICS

- An ethics of virtue shifts the focus from questions about what a person should *do*, to a focus on who that person *is*.
- Implicit in this distinction is the recognition that our identity as a person is constituted in part by our wants, beliefs, values and attitudes.
- The self is identical to a person’s most fundamental and enduring dispositions, attitudes, values, and beliefs.
VIRTUE ETHICS

- Emphasizes the more affective side of our character.
- Seeks to understand how our traits are formed and which traits bolster and which undermine a meaningful, worthwhile, and satisfying human life.
- Encourages a fuller description, rather than simply describing people as good or bad, right or wrong.
- Reminds us to examine how character traits are formed and conditioned.
A DECISION-MAKING MODEL FOR BUSINESS ETHICS REVISITED

1. Determine the facts
2. Identify the ethical issues involved
3. Identify stakeholders
4. Consider the available alternatives
5. Consider how a decision affects stakeholders
   a. Consequences
      i. Beneficial and harmful consequences
   b. Duties, rights, principles
      i. What does the law say?
      ii. Are there professional duties involved?
      iii. Which principles are most obligatory?
      iv. How are people being treated?
   c. Implications for personal integrity and character
      i. What type of person am I becoming through this decision?
      ii. What are my own principles and purposes?
      iii. Can I live with public disclosure of this decision?
A DECISION-MAKING MODEL FOR BUSINESS ETHICS REVISITED

6. Guidance
7. Assessment
June 2009, the U.S. Treasury Department appointed Kenneth Feinberg to oversee compensation packages that are offered to executives at firms that received significant government bailout money.

- The companies included AIG, CitiGroup, Bank of America, and General Motors.

Soon Feinberg was dubbed as the first ever “compensation czar.”

- Critics saw this appointment as a first step towards government wage controls.
- Defenders saw this as long-overdue and a necessary step to bring fairness to executive compensation and hoped that this practice would extend beyond only those firms receiving government funding.
After examining this Chapter, you should have a clear understanding of the following Key Terms and you will find them defined in the Glossary:

- Autonomy
- Categorical imperative
- Character
- Consequentialist frameworks
- Deontological ethics
- Duties
- Egoism
- Ethical relativism
CHAPTER THREE VOCABULARY TERMS

- Human rights
- Moral rights
- Rights
- Utilitarianism
- Virtue ethics