

Introduction: Why Study Business Ethics?

LEARNING OUTCOMES

At the end of this chapter, you should be able to do the following:

1. Define ethics and the domain of business ethics.
2. Discuss how the constraints on managers influence ethical decision making in business.
3. Use the business and ethics trade-offs framework to differentiate between four types of ethical temptations business professionals face.
4. Explain the two approaches to business ethics and use the DRAFT model to understand the key differences between the two.
5. Use the tools and frameworks in this chapter to analyze actual ethical situations and issues.

Opening Case | WeWork Doesn't Work: Ethical and Business Challenges Stop a Unicorn in Its Tracks



Bloomberg/Getty Images

Adam Neumann and Miguel McKelvey founded WeWork in 2010, when the pair recognized a scalable business opportunity in what they had done with their own office space. The two had subleased a workspace in New York City and remodeled it into a comfortable, inviting place for two millennial, digital-savvy workers to be more creative and productive. The company's value proposition centered on signing long-term leases for prime office space in the world's largest markets and creating a shared and collaborative work environment that was "hip and inviting" for a generation of knowledge workers, many of whom previously worked from home or in coffee shops.¹ Clients, at first individuals and then entire companies, would

sublease space from WeWork on a short-term basis. The positive "vibe" in these new offices would boost collaboration and creativity, fueling entrepreneurial ideas and gains in worker productivity.²

WeWork built on the premise that work was the central axis around which people's lives rotated in the twenty-first century, and the company hoped that the new style of working would alter and raise the consciousness of people beyond work and contribute to the solution of global problems such as climate change, hunger, and poverty. Neumann proved an adept promoter of his vision and found investors willing to back his new venture. The largest investor, Japan's SoftBank, would pour more than \$10.5 billion into the company over the 2010s.³ By 2018, WeWork had expanded to 500 cities across the globe and was the largest lease holder of office space in London, New York City, and Washington, DC.⁴ The company had revenues of \$1.8 billion, a cash hoard of over \$6.6 billion, and a valuation of \$47 billion.⁵ The time seemed right for an IPO, and the company targeted a fall 2019 date to go public.

Revenues and valuations had climbed over the decade, but so did losses. The company lost \$1.6 billion in 2018, and by July of 2019 it racked up another \$690 million net loss over six months on earnings of \$1.5 billion.⁶ When the company filed its S-1 prospectus, investors wondered whether the company's fundamental business model, based on long-term costs and short-term revenue, would ever turn a profit. Investors and critics of the company also found reports of several questionable ethical practices, and the company's definition of success seemed out of touch for a company in the commercial real estate business.

The S-1 filing, the company's initial SEC-required registration document prior to an IPO, detailed several questionable transactions that raised concerns about conflicts of interest and the company's ability to manage them. In a 2014 funding round, Neumann had created a voting rights structure (his shares held ten times the voting rights of any other shares) that left him with 100% control of the company. He also had been an owner or investor in several of the properties WeWork leased and had even licensed the trademarked name of "We" to the company for \$6 million. Neumann had sold, but not reported to investors, shares worth hundreds of millions of dollars, often at valuations not available to others inside the company, and he had borrowed over \$740 million against the value of his remaining shares.⁷

Neumann was not alone in apparent self-dealing. Reports later surfaced that several members of the executive team, including the vice presidents of real estate and construction, had funneled money to relatives or entities in which they were owners. Former Twitter CEO Dick Costolo summed up what many in the market felt: "The degree of self-dealing in the S-1 is so egregious, and it comes at a time when you've got regulators and politicians and folks across the country looking out at Silicon Valley and wondering if there's the appropriate level of self-awareness."⁸

In addition to raising global consciousness, alleviating climate change, ending hunger, and solving poverty, Neumann had publicly stated his goal to be the world's first trillionaire, and he claimed the need for a high market capitalization this way: "I need to have the biggest valuation I can, because when countries are shooting

at each other, I want them to come to me."⁹ WeWork glorified its culture of work hard, play hard, and sometimes-unreasonable expectations. The company produced T-shirts and other swag with slogans such as "Hustle Harder" and "Thank God It's Monday." Free-flowing alcohol was a staple at formal company meetings.¹⁰

The combination of a questionable business model, sketchy ethical transactions, and an outlandish vision of success sank WeWork's IPO. The company's valuation went from \$47 billion to just over \$7 billion in a matter of weeks. SoftBank, with its investment deeply underwater, took control of the company and removed Neumann from an operating role. Neumann would play a reduced role in the company, now named We, going forward, but the deal with SoftBank left him a billionaire and with a \$185 million consulting contract.¹¹

Adam Neumann and WeWork exemplify the concerns people have about ethics in business. The WeWork story provides a short but sobering answer to the question: "Why study business ethics?" Greater attention to ethics might have helped WeWork avoid catastrophic losses, business failures, and the destruction of value both for shareholders (\$40 billion in lost market value) and other stakeholders (4,200 employees lost their jobs when the IPO fizzled, and lessors and other suppliers found their payments in jeopardy). We don't know whether or not Adam Neumann took an ethics class when he studied business at Baruch College, but the presence of ethical challenges and problems at WeWork belies a serious consideration of the ethical dimension of business activity and decision making.

Introduction

Our goal in writing this book is to provide you with an integrated view of ethics and business that answers these two foundational questions: How do I avoid ethical and compliance quagmires such as conflict of interest (often translated as "How do I stay out of jail?"), and How do I create a life full of meaning and positive purpose (or "How do I lead a good life?")? After all, no one wants to (or intends to) go to jail, and all of us hope to live a happy, meaningful, and productive life. Ethical thinking and frameworks also can help you answer other important questions. **Figure 1.1** lists these questions, describes the central frameworks and tools we'll introduce in the book to help you find answers, and gives you a road map of where you'll encounter each area of integration. We'll begin integrating ethics and business by defining the areas where ethics and business come into contact.

Integrating Ethics Helps You Answer These Questions	Using These Frameworks/Tools	Covered in These Chapters
How can I avoid creating moral harms?	The Ethical Tradeoffs Framework The DRAFT Model	Chapters 8–14 Chapters 1, 2, 4, 5
How can I create moral goods and live a meaningful life?	The PERMA Model Sustainability	Chapters 3, 4, 12
How can I balance personal values and professional obligations?	The PERMA Model Ethical Leadership	Chapter 3 Chapter 6
How can I apply ethical concepts in practical situations?	Situation Specific Guidelines	Chapters 8–12
How can I make better business decisions by considering the ethical component?	The Eight Questions Stakeholder Salience Model	Chapter 3, 6 Chapter 4, 6
How can I account for religious, philosophical, or scientific models of ethics?		Chapter 3, 7
How can I design ethics-based compliance systems?	Elements of Compliance	Chapter 5
How can I navigate ethics in a global setting?	The CAGE Framework	Chapter 7

FIGURE 1.1 The advantages of integrating ethics and business.

Ethics and Business Ethics

Ethics

Many definitions of ethics exist, from a basic dictionary definition of **ethics** as “a set of moral principles,” or “principles of conduct governing an individual or group.”¹² Aristotle, a philosopher of Ancient Greece, used the Greek word *hexis* to describe individual moral virtue as a “stable disposition . . . [or] way of being.”¹³ *Hexis* provides the foundation of a person’s *character*.” The nineteenth-century British aristocrat Lord Moulton described ethics as that which lies between unbridled human freedom of choice and the strict confines of law. This **third domain** of human action requires “obedience to the unenforceable,” or conformance with norms and principles where no punishment arises from nonconformance.¹⁴

Business Ethics

Business ethics involves the “ethical dimensions of productive organizations and commercial activities.”¹⁵ This definition covers both traditional business (commercial) activity and the work of many nonprofit or civil society (productive or service) organizations. Individual business professionals and organizations both deal with ethics in each of the three senses defined earlier.

You may ask: “Why study business ethics?” Having a serious and thoughtful consideration of the role of ethics in business life helps you answer several critical questions that will influence your professional success and personal fulfillment. We’ve already pointed out the two overarching and most critical questions in the opening case: How do I avoid ethical and compliance quagmires such as conflict of interest (often translated as “How do I stay out of jail?”), and How do I create a life full of meaning and positive purpose (or “How do I lead a good life?”)? The first question, avoiding ethical harm, has concerned scholars, executives, and policy makers throughout much of the twentieth century.¹⁶ The second question concerns more than just living a life free from moral harm and involves creating moral goodness. This question has been central to philosophers since the dawn of civilization.¹⁷

Many companies and individuals have clearly stated principles of conduct that define right and wrong behavior, often contained in a mission statement, list of values, or a code of ethics. Our Ethics in the Real World 1.1 feature provides an example of a famous mission and values statement: the Johnson and Johnson Credo. The language in many of these documents creates an aspirational goal of a type of character to be obtained by the company and its employees. Finally, much of business activity, from how we deal with coworkers to customers, depends on people being obedient to unenforceable norms of civility, kindness, and respect.

Ethics in the Real World 1.1 | The Johnson & Johnson Credo



HIBC/Shutterstock.com

Robert Wood Johnson served as CEO of Johnson & Johnson from 1932 to 1963. In 1943, he articulated the core values of his company in a document he termed the Credo:

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers’ orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities.

Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens—support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education.

We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When

we operate according to these principles, the stockholders should realize a fair return.

Aaron P/Bauer-Griffin/Getty Images/



As you read the Credo, think of the different definitions of ethics. Where do you see a “set of moral principles” that govern behavior? What type of corporate character does J & J aspire to? What “unenforceable” norms does the company commit to obey? What relationships do you see between J&J’s values and their business strategy?

The Dimensions of Ethical Choice

This textbook will expose you to several categories of ethical challenges and issues that business professionals, specifically managers, and their organizations face, such as conflicts of interest, bribery, promise keeping, and the use and abuse of power. These broad categories of challenges play out in daily business life in countless concrete decisions and situations; however, each of those situations will have two common elements. Each involves a moral component, and each requires a professional to choose a course of action.

The Moral Aspect of Ethical Decision Making

The **moral component** means that ethical challenges center on fundamental questions of good and bad, right and wrong. Good/right and bad/wrong, when considered as a part of morality, may consider both instrumental and ultimate ends. **Instrumental ends** are things that are good because they lead to something else. **Ultimate ends**, also called **intrinsic ends**, are things that are good or desirable in and of themselves. A college education has both an instrumental and intrinsic moral nature. A degree provides instrumental value as it facilitates higher wages, which allow people to purchase goods and services that bring contentment or pleasure.¹⁸ A college education is intrinsically good as knowledge provides its own happiness and satisfactions, over and above economic or other benefits.

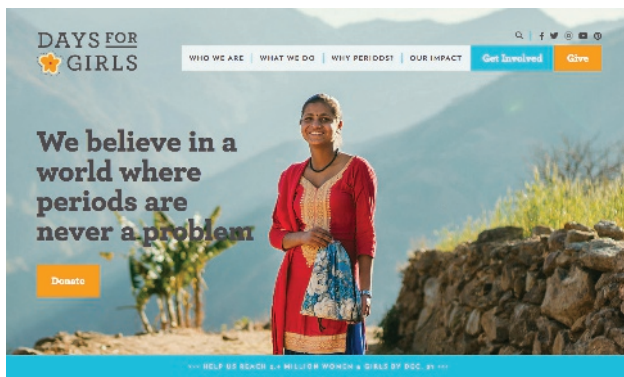
The moral component of an ethical challenge may be an input or output to an ethical decision. Consider workforce reductions. These moves, often called downsizing, rightsizing, or reductions in force, often create ill will among employees and other stakeholders as they are seen as a company focusing on “business” at the expense of “ethics.” Workforce reductions appear to pit a company’s obligations to shareholders and financial returns against employee loyalty and well-being. Managers who see the impact on employees as having a moral, as well as business, dimension can work to design restructuring programs that are transparent and fair and satisfy both business and ethical needs. French tire giant Michelin has a formal policy to ensure fairness:

“Restructures [the company’s term for Reductions in Force] are inevitable in certain circumstances in order to maintain the company’s global competitiveness. These restructures must, as far as possible, take place at times when the company’s health allows mobilization of adequate resources to attenuate the social consequences. Whenever possible, staff at the entities concerned and their representatives are invited to work together to seek and suggest solutions for restoring competitiveness and reducing overcapacity, which may open up an alternative to closing an

activity or site. When restructuring is unavoidable, it must be announced as soon as possible and carried out according to the procedures negotiated with the staff representatives. The ensuing changes on a personal level must be supported for as long as is necessary to ensure that the reclassified employees find a satisfactory solution in terms of standard of living, stability, family life and self-esteem.”¹⁹

Fair and transparent processes produce positive *instrumental* outcomes when people are more satisfied with the company and their jobs. Fairness and transparency are also *intrinsic* moral goods, valued in and of themselves. Many business decisions involve moral outcomes. Marc Tarpenning and Martin Eberhard founded Tesla Motors in 2003 with the goal of producing a high-end performance sports car that would not contribute to global warming. After a divorce from his first wife, Eberhard recalls: “I was thinking I should do what every guy does and buy a sports car. . . . I couldn’t bring myself to buy a car that got 18 miles to the gallon at a time when wars in the Middle East seemed to somehow involve oil and the arguments for global warming were becoming undeniable.”²⁰ Similarly, Heliogen, a start-up backed by Bill Gates and AOL’s Steve Case, devised a way to use machine learning to focus hundreds of solar panels to generate 1,000 degree Celsius temperatures. Heliogen hopes to deploy its innovation in cement, petrochemical, and steel production plants. If their technology works, solar energy would replace fossil fuels in these massive facilities and could reduce global carbon emissions by up to 20%.²¹ An ecologically sustainable world represents an ultimate moral end, good in and of itself. Ethics in the Real World 1.2 describes another organization acting to create ultimate moral ends.

Ethics in the Real World 1.2 | Celeste Mergens Empowers Girls in the Developing World



In 2008, Celeste Mergens (see picture) found herself working in an orphanage just outside Nairobi, Kenya. One night she asked what the young women at the orphanage did for feminine hygiene. The answer was, “Nothing. They wait in their rooms.”²² Girls would sit alone on whatever cardboard they could find, missing meals, school, and opportunities for social interaction during their periods. Mergens worked to find a solution to the taboo subject of female menstruation. She began by providing disposable pads to the girls, but found that these pads overwhelmed the capacity of

communities to process the waste. Over the next several years, Mergens devised a new product, the DfG (Days for Girls) POD (for Portable Object of Dignity), a patented, cloth-based, reusable set of absorbent pads that allow girls full mobility and activity during their period. The cloth-based product dramatically reduces landfill waste and is cheaper to use. Each POD lasts up to three years. The product empowers girls by putting them out in the community, removes a substantial barrier to education, and fosters gender equality. As of 2019, Days for Girls had provided hygiene kits to over 800,000 girls and women.

“[Days for Girls] addresses something that frees and strengthens girls and women on a very foundational level,” [friend Camille] Olson said. “By doing this, you really start changing the world and you can make a change happen instantaneously. From the moment they get one of those pads and learn how to take care of it, it’s a new life for that girl, for that woman. It changes right there.”²³

Education and gender equality represent important instrumental, or intermediate ends. Education allows people to realize their full potential for happiness, and equality is an important element of human freedom. Happiness and freedom are intrinsic moral ends.

Moral Agency and Choice

The second characteristic that defines the ethical dimension is **choice**, the ability to freely decide among different options. When an actor has a real choice of alternative courses of action, that person has moral, and often legal, responsibility for the choices he or she makes.²⁴ Note that having choice does not mean that ethical decisions or challenges will be easy and convenient, nor will the course of action readily be clear. A part of what makes up many ethical choices is the difficulty and sacrifice actors must make to conform to ethical norms, standards, and values.

Sometimes actors don’t have free choice. In this case, they make decisions under duress, the condition in which an actor faces two alternatives, but one course of action is perceived as

so unreasonable as to not be a feasible choice. Contract law recognizes that sometimes people make decisions under conditions of coercion or duress, and the legal corpus has identified five conditions under which an actor is considered under duress:

1. The actor must be threatened with significant harm.
2. The actor must have no reasonable opportunity to escape from the coercive situation.
3. The threat must be itself illegal or immoral.
4. The threat of harm must be imminent in time or have a high probability of being carried out.
5. The actor must not have placed themselves into this situation voluntarily, or where they could expect the situation to result in threat or coercion.

In organizational situations, duress is often a function of the power differential between a person requesting/demanding a certain action and the one being asked. Our experience is that those with power and a desire to abuse it can far too easily request unethical behavior of subordinates with either explicit or implicit threats, such as being demoted, fired, or transferred to a less attractive assignment. The fifth criterion becomes particularly important in many situations, as those without power sometimes voluntarily put themselves in situations where threats become more severe. For example, recent graduates in their first jobs will often incur personal debt, like buying a new car. This debt makes the threat of demotion or job loss more severe but fails to constitute duress as the graduate voluntarily incurred the debt and left themselves open to coercion. In this case, our new hire still has free choice; however, one of the choices is reasonable, but very unattractive. Our Ethics in the Real World 1.3 feature describes a situation in which many women found themselves under duress.

Ethics in the Real World 1.3 | #MeToo, Sexual Harassment, and Duress in Decision Making

dpa picture alliance/Alamy Stock Photo



Activist Tarana Burke first used the phrase “Me Too” in 2006 to bring attention to the problem of sexual abuse among women of color. The phrase would lie dormant for another decade until October of 2017, when actress Ashley Judd accused Oscar-winning media mogul Harvey Weinstein of soliciting sexual favors from her during a visit to his hotel room.²⁵ “Women have been talking about Harvey amongst ourselves for a long time, and it’s

simply beyond time to have the conversation publicly,” Judd said of her decision to disclose the harassment.²⁶ It soon came out that Weinstein had offered legal settlements to eight other women whom he sexually harassed, molested, or threatened. The threat was often cloaked in a promise: In exchange for sexual favors (or the lack thereof), Weinstein would use his power to advance (or destroy) the careers of young actresses. In 2020, Weinstein would be convicted of rape for some of his coercive actions.

Judd’s revelation led to disclosures by other women that felled and sometimes jailed many powerful men, including NBC *Today* anchor Matt Lauer, CBS CEO Leslie Moonves, and comedian Bill Cosby. Other powerful men would also be accused, such as popular scientist Neil deGrasse Tyson, musician R. Kelly, and actor Cuba Gooding, Jr. #MeToo crossed the gender line in 2019 when US Representative, from California, Katie Hill resigned amidst the disclosure of an inappropriate sexual relationship with a male subordinate.

Common to each of these stories is the account by accusers of being coerced into sexual activity or harassed about it under the explicit or implicit threat of serious and sustained career damage. These threats placed the victims under extreme duress and resulted in emotional pain and decisions and actions all victims later regretted.

Business Agency and Fiduciary Responsibilities

Employees, executives, and managers in organizations have been hired to make choices. They act as agents of the organization that hired them. An agent is a person “who is authorized to act for or in place of another.”²⁷ Some business leaders, the senior executives of the firm and the board of directors, are fiduciaries. A **fiduciary** is an agent who has custody over things of value to the principle, and a responsibility to act in the best interest of the principal that he or she represents. The executives

of a firm have a fiduciary responsibility to pursue the best interests of the organization that hired them. A **fiduciary duty** has two components. The first is the **duty of loyalty**, which requires a fiduciary to act in good faith and in a manner that they reasonably believe is in the best interest of the organization. The second is the **duty of care**, which requires a fiduciary to avoid untoward risk or potential harm to the interests of the principal. For executives of exempt organizations, typically religious, charitable, scientific, public safety, literary, or educational organizations, a third fiduciary duty exists. They must make sure the organization conforms to the purposes that allow the organization its tax-exempt status from the IRS. Employees do not have the same formal fiduciary duties as executives and officers; however, when a person accepts a job and its compensation, they agree to work for the benefit of their employer and avoid taking risks that would jeopardize the business.

Ethical Challenges in Business

Ethical challenges fall into two broad categories, temptations, where the choice is between something right and something wrong, and dilemmas that pit right versus right or wrong versus wrong.

Ethical Temptations

For business executives, the root of most temptations is a conflict between their roles as agents of the business owners and their personal ethical values. The matrix shown in **Figure 1.2** captures the basic elements of an ethical temptation, where a business professional must decide between a course of action that's good for the business or that's ethically proper.

Note that the actor faces four potential decisions:

- Quadrant I—The situation where the action is good for the business but morally improper. This becomes a difficult decision, and represents a real temptation, as forgoing the ethically correct decision will bring clear rewards to the business.
- Quadrant II—The situation where the action is both good for the business and ethically correct. This is an easy decision, there is no temptation, and the decision is a clear yes.
- Quadrant III—The situation where the action is both bad for the business and ethically improper. Again, this is an easy decision with no temptation. No is the simple answer.
- Quadrant IV—The situation where the action is bad for the business but ethically correct. Like its diagonal counterpart, these choices represent tough decisions and real temptations as doing the “right thing” will lead to “wrong consequences” for the business.

When professionals face the temptations in quadrants I and IV, they resolve these temptations by employing **moral courage**, the willingness and ability to make the correct ethical choice in the face of negative consequences. Wise professionals will often employ **moral creativity** to find a solution that resolves the temptation by finding a way to move the decision into either quadrant II or III. Take the issue of a reduction in force, or layoff, that we described earlier. Business conditions may worsen and require prompt action by managers to cut costs by reducing head count, and the temptation appears to pit two important stakeholder groups, investors

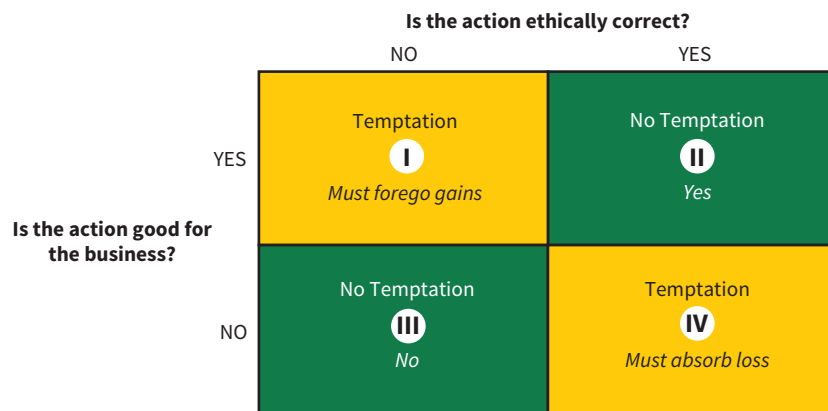


FIGURE 1.2 The business ethics tradeoff framework.

and employees, against each other: profitability against fairness, transparency, and equity in honoring the informal or social contract between the firm and its employees.²⁸ Moral creativity enters the decision when managers focus on the potential increases in long-term costs, such as reduced productivity or innovation, that often accompany poorly handled layoffs.²⁹ Layoffs may still take place, but by attending to the process and context of the action, managers can remove the temptation to act unethically by showing that the predicted trade-off was false: There was a way to accomplish the business goal through more ethically correct means.

Ethical Dilemmas

The second set of ethical challenges are dilemmas, where the decision is between competing moral goods. In these cases, managers and employees must trade off competing ethical values such as respect for privacy with openness and transparency, or they may have two responsibilities and must choose which one to honor.³⁰ Dilemmas may arise from traditional fiduciary/employee duties and focus on problems of discretionary corporate activities. For example, Connecticut-based Newman's Own Foundation operates with a set annual budget and supports a number of organizations in predefined philanthropic categories. When Hurricane Sandy hit the New York area in 2012, executives felt the need to divert funds to support relief efforts in their local community. They had to sacrifice one good act in order to do another one.

Dilemmas may also arise from conflicts between our duties at work and obligations as life partners, parents, or as compassionate human beings. Managers and coworkers struggle with this balancing act all the time. How should we respond to a single parent on our work team who misses some deadlines due to the lack of childcare options? What is the appropriate level of tolerance for employees with a history of substance abuse? How can managers and leaders balance the need for safety and security and yet still offer compassion to the chronically unsheltered?³¹ Dilemmas require that professionals disappoint one party or leave one responsibility undone in favor of the other, or they force people into compromises that leave neither party satisfied or both responsibilities partially unfilled.

The Need for an Integrated Approach

The WeWork case that opened the chapter introduced the two foundational concerns for business ethics: how to avoid moral harm, and how to create moral good. In common language, these become questions such as How do I stay out of jail? and How do I create a great, happy, and meaningful life?

Two Perspectives on Ethics in Business

These two questions represent two broad approaches to the ethical challenges and issues in business, which we label the *pragmatic* and the *philosophical* approaches to ethics. **Table 1.1**

	Pragmatic	Philosophical
Drivers of behavior	Greed and Power—Personal Gain	Benevolence and Love—Personal and Other's Gain
Relationship between actors and decisions	Ethical actors are constrained business agents acting in the face of incentives that limit moral choices.	Ethical actors are principals and have real moral choice even in the face of constraints and incentives.
Approach to ethical issues	Transactional—What should I do?	Theoretical—Why should I do it?
Fundamental governance mechanisms	Rules and sanctions and external controls to counter incentives for unethical behavior	Principles, intrinsic rewards, and self controls to facilitate the expression of positive ethical behaviors
Target	Compliance and avoiding harm	Happiness, fulfillment, and doing good

displays important features and underlying assumptions that differentiate the pragmatic from the philosophical view. We use the mnemonic DRAFT to capture the key differences between the two views.

Employing an Integrated Approach

The vignettes of Harvey Weinstein and Celeste Mergens in this chapter provide evidence that both views have merit: Human beings can be greedy, power-hungry, and downright awful. They can also be filled with concern for others, creative in finding solutions to vexing problems, and exhibit genuine love and charity toward each other. Humanity falls on some sort of moral distribution, with very small numbers of people who are purely immoral or moral. Most people fall in the middle of the distribution, capable of both good and evil, and swayed to engage in either one by formal laws and ethical principles, and informal norms and customs that prove unenforceable. Aristotle saw the development of a moral character as the outcome of a lifetime of moral actions or habits. For most people, the type of moral character they develop is the result of following base desires for acquisition, comfort, and power, or heeding the better angels of their nature by practicing kindness, altruism, and a concern for virtue.

This book title includes the words *An Integrated Approach* because our view is that a robust and helpful introduction to ethics requires deep and serious consideration of the two fundamental ethical questions: How do I stay out of jail? and How do I build a good life? We don't see integration as some sort of mash-up of the two views. There is no middle position between the pragmatic and philosophical view, and we'll take seriously each position. As you read this book, you'll come to understand the overarching frameworks, models, rules, and tools of ethical compliance that will allow you to navigate within the world of work. You'll also be exposed to the frameworks, models, principles, and tools that help you integrate the other elements we laid out in Figure 1.1. Each of these areas are important for you to consider as you plan to stay out of jail and build a good life—one filled with meaning and happiness.

The first section, of the book, which comprises chapters 2 through 7, provides you with some important fundamental knowledge about human nature and how smart people have thought about ethics throughout history (Chapter 2). Chapter 3 takes up the issue of how to create a morally good life and the role of integrating business and ethics in that process. Chapter 4 describes key features of organizations and gives you a set of tools to evaluate the different stakeholder groups that interact with a business or organization. Chapter 5 lays out the important role of compliance and related processes in organizations, and Chapter 6 discusses the critical role of organizational culture and individual ethical leadership in creating flourishing organizations. Chapter 7 provides you with some foundational frameworks for dealing with ethical issues in a global setting. In Chapters 8 through 12, the second section, we turn our attention to specific ethical challenges and issues common in twenty-first century business and nonprofit organizations: power, including bullying, cancelling, and coercion (Chapter 8), conflict of interest (Chapter 9), bribery (Chapter 10), promise keeping (Chapter 11), corporate social responsibility/sustainability (Chapter 12). The focus in these chapters is to provide you with practice facing ethical challenges and making decisions. With practice, you'll make better decisions when you arrive in the world of work. Section three zooms out and offers two essays that consider larger issues. Chapter 13 takes up the relationship between ethics and technology, and Chapter 14 invites you to think about both the role of ethics in a well-functioning market economy and the moral goodness of a market economy for society at large.

Key Terms

choice 5

duty of care 7

duty of loyalty 7

ethics 3

fiduciary 6

fiduciary duty 7

hexis 3

instrumental ends 4

intrinsic 4

moral component 4

moral courage 7

moral creativity 7

third domain 3

ultimate ends 4

Chapter Summary

In this chapter, we've outlined the following key concepts:

- Ethics in business provides answers to two foundational questions: How can individuals and organizations avoid causing moral harm? How can individuals and organizations create morally good actions and outcomes? These questions are often expressed as follows: How can I stay out of jail? How can I lead a happy, meaningful life?
- Ethics is a system of moral principles and values that guide action. For Aristotle, the goal of ethics was to create an individual, or an organization, of great moral character. Ethics also entails conformance, or obedience, to unenforceable social norms or customs.
- Business ethics is the application of moral character, customs, norms, principles, and values to commercial and productive organizations. This includes business organizations as well as those in the not-for-profit sector.
- Ethical challenges take two forms: temptations that force individuals to choose between right and wrong, and dilemmas that require a choice between right and right. Working through both types of challenges requires moral courage and moral creativity.
- There are two broad and different approaches to business ethics. The pragmatic view sees individuals as motivated by the darker sides of self-interest and driven by a desire for acquisition (which easily becomes greed) and power. The goal of pragmatic ethics is to keep these destructive desires in check through rules, regulations, punishments, and other sanctions. The philosophical view holds that individuals can be motivated by positive moral virtues, such as altruism, benevolence, and charity. The goal of ethics is to encourage individuals and organizations to exercise and implement these moral motivations and actions into their lives. This book will integrate those two views by exploring how these two perspectives inform business activity and decision making.

Chapter Review Questions

1. Define business ethics. How do the three conceptions of ethics outlined in the chapter fit together? How does each notion of ethics help us understand the prevalence of the ethical dimension in business?
2. Should business ethics include a concern for personal well-being, or should it just focus on curbing the tendency of firms and managers to engage in harmful actions?
3. How does an ethical temptation differ from a dilemma? Provide an example from your own life about when you faced a moral temptation, and another when you faced a moral dilemma. How did you resolve them?
4. How can managers reconcile situations where a course of action is morally correct but will create negative consequences for their business? Would this be a more difficult decision than forgoing some gain to the business in order to avoid moral harm? Why or why not?
5. What things can individuals and organizations do to develop moral courage?
6. In your opinion and experience, which view of human tendencies, the pragmatic or the philosophical, better describes individuals and organizations?

Application Exercises

- *Personal Ethical Development.* Begin keeping an ethics journal. For this chapter, record your thoughts and feelings about the need for ethics to help you “stay out of jail” and “lead a happy life.” As you reflect on your own history, record instances when you have been motivated by an unhealthy desire for acquisition (you have been greedy), or when you have used power inappropriately. Also think about and record times when you have acted according to the “better angels” of your nature.
- *Career Goals and Planning.* Throughout this book, we'll give you the opportunity to think about creating a career that fulfills the goal of ethics to lead a happy, meaningful, and productive life that blends and builds upon the following: (1) the type of life you are interested in leading, (2) your deepest and most important values, (3) the work you are interested in doing, (4) what you are good at, (5) your preferences for things like work versus free time, and (6) your personality. To begin this work, write down your initial responses to these questions. Think about your answers for a couple of days, and then revisit your answers and begin to add more depth. You'll do this throughout the course, and for now it's good to begin thinking seriously and rigorously about these issues.
- *Ethics in the Business World.* Identify two companies that have faced ethical challenges and find articles or other information about the specific challenges these companies have faced. How did these companies respond to these situations? What common actions do you see in both instances? In what areas did

their responses differ? What were the results of each company's actions? Which company do you think did a better job?

- *Talking with and learning from others.* Choose a business professional you admire and aspire to be like. Engage that person in a brief interview. What types of ethical temptations and dilemmas

has this person faced in their career? What did they do? How did they develop moral courage? When did they exercise moral creativity to resolve these issues? What practices can you adopt in your own life and career to help you be a more ethical person?

Mini-Cases

Case 1: How much cheating is wrong? In November of 2017, the Houston Astros won baseball's World Series. The championship was the first for the franchise, and after the devastation of Hurricane Harvey, the team lifted the spirits of many beleaguered Houstonians. Much of that joy turned to shock and anger in late 2019, when former Astros pitcher Mike Fiers claimed that the Astros 2017 championship came about because the team engaged in a sophisticated scheme of "sign stealing." Hitting a baseball is said to be the most difficult athletic maneuver. A batter is trying to use a 2.6-inch-wide bat to hit a ball flying in at up to 100 miles per hour, and sometimes "curving," "sinking," or "jumping" during its flight. The speed, spin, and trajectory of the ball are strategic decisions on the part of the pitcher, and the decision on which pitch to throw is communicated between the pitcher and the catcher (who needs to know which pitch is coming in order to successfully catch it). If the batter knows which pitch is coming, he is better able to hit the ball.

All teams engage in sign stealing, and the attempt to figure out which pitch is coming is considered a part of the game. Pitchers and catchers create elaborate sign systems, and often change signs in order to avoid sign stealing by opposing players and coaches. What is not part of the game, however, is using advanced technology to steal signs. The Astros had an employee in center field (directly behind the pitcher and in full view of the catcher and the sign-giving catcher). This employee would view video of the catcher's signs, and then note the ensuing pitch. After a couple of innings, the employee would match signs with pitches, and when the catcher signaled for a "breaking ball"—one that would curve, sink, or jump, the employee would send a signal to the Astros bench, and a player would bang on a garbage can. The batter would then know to expect a "breaking ball" and react accordingly.

In January of 2020, Major League Baseball, the sport's governing body, announced that it had confirmed that the Astros had cheated and suspended two of the team's leaders, who were later fired from the Astros. No players were sanctioned; in exchange for exposing the scheme, they were given immunity. Major League Baseball chose to punish those who organized and perpetuated the scheme, but not those who participated in it or were the direct beneficiaries of it.

Discussion Questions

1. Is cheating in sports wrong? How can some cheating be an accepted part of the game, and other cheating be unacceptable? Where

should the line be drawn? How does modern technology change the game of sign stealing?

2. How can Major League Baseball control cheating? What rules and punishments might be effective?
3. What role does cheating play in living a happy and meaningful life? Does winning a championship through cheating diminish its value? Why or why not?

Case 2: Privacy in the digital age. The right to privacy is foundational for Americans, legally encoded into the Fourth Amendment to the Constitution of the United States. The 1948 United Nations Declaration of Human Rights includes language that acknowledges the right to privacy for people all over the globe. With the dawn of the Internet age, however, privacy has become a hotly contested issue. The revenue model of many technology companies, such as Google and Facebook, relies on gathering data on the private actions of individuals, on the Web and off, and providing/selling that data to advertisers to better target potential customers.

Discussion Questions

1. What should remain private and beyond the reach of technology? What role does privacy play in leading a happy and meaningful life?
2. What have we gained in exchange for our privacy? Are individuals and societies better off now? In what ways?
3. Can companies be trusted to self-police and self-regulate the data they collect and sell? What conflicts of interest are there, and how do these threaten self-regulation?
4. How much should companies disclose about what data they collect and how it is used?
5. Recently, California adopted a law that allows users to opt out of data sharing. The European Union has a similar data privacy law. What are the advantages and disadvantages of such laws?
6. What types of government regulation can protect our privacy? Does government have the capability to create effective regulations in the rapidly advancing technology world? What would be lost, in terms of innovation, safety, or convenience, if government regulates social media and technology companies?

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